

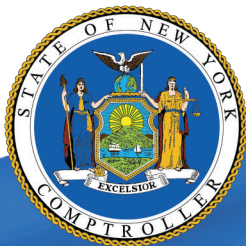
# Parishville-Hopkinton Central School District

## Financial Management

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JUNE 2017

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OFFICE OF THE NEW YORK STATE COMPTROLLER  
Thomas P. DiNapoli, State Comptroller

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# Report Highlights

## Parishville-Hopkinton Central School District

### Audit Objective

Determine whether the Board and District officials adopted reasonable budgets and adequately managed the District's financial condition.

### Key Findings

- The Board adopted budgets with estimated appropriations that exceeded actual expenditures by a total of \$2.5 million, or an average of 8 percent, over fiscal years 2013-14 through 2015-16, which resulted in appropriated fund balance not being used.
- The Board did not adopt a reserve fund policy and some reserves are overfunded.
- District officials have not developed comprehensive multiyear financial or capital plans.

### Key Recommendations

- Adopt budgets that include realistic estimates for expenditures.
- Develop a written policy that indicates the amount of funds to be reserved and how each reserve will be funded.
- Develop and adopt comprehensive multiyear financial and capital plans.

District officials generally agreed with our recommendations and indicated they planned to take corrective action.

### Background

The Parishville-Hopkinton Central School District (District) is located in the Towns of Hopkinton, Parishville, Potsdam and Stockholm in St Lawrence County. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is responsible for the District's day-to-day management and for the development and administration of the budget.

#### Quick Facts

Employees	80
Enrollment	430
2016-17 Budgeted General Fund Appropriations	\$11 Million

### Audit Period

July 1, 2015 – Nov. 30, 2016.

We extended our audit scope back to June 30, 2013 to review fund balance trends.

# Financial Condition

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## How Does a Board Effectively Manage Financial Condition?

To effectively manage financial condition, the Board should adopt realistic and structurally balanced budgets based on historical or known trends, in which recurring revenues finance recurring expenditures. In preparing the budget, the Board must estimate what the District will spend and what it will receive in revenue (e.g., State aid), how much fund balance will be available for use at fiscal year-end and, to balance the budget, what the expected tax levy will be. Accurate estimates help ensure that the real property tax levy is not greater than necessary.

In addition, the Board must also maintain reasonable fund balance levels. Fund balance is the difference between revenues and expenditures accumulated over time. New York State Real Property Tax Law (RPTL) limits the amount of unrestricted fund balance that a school district can retain to no more than 4 percent of the ensuing fiscal year's budget. Additionally, school districts are allowed to legally set aside or reserve portions of fund balance to finance future costs for specific purposes (e.g., capital projects or retirement expenditures), and may also appropriate a portion of fund balance to help finance the next year's budget (referred to as appropriated fund balance). Sound budgeting practices provide that District officials should not routinely appropriate significant amounts of fund balance that will not be used.

## The Board Overestimated Expenditures and Appropriated More Fund Balance Than Needed

We compared budgeted revenues and appropriations with actual operating results for fiscal years 2013-14 through 2015-16. While revenue estimates were generally reasonable, the Board overestimated appropriations by an average of \$841,000 annually (9 percent), or a cumulative total of more than \$2.5 million.

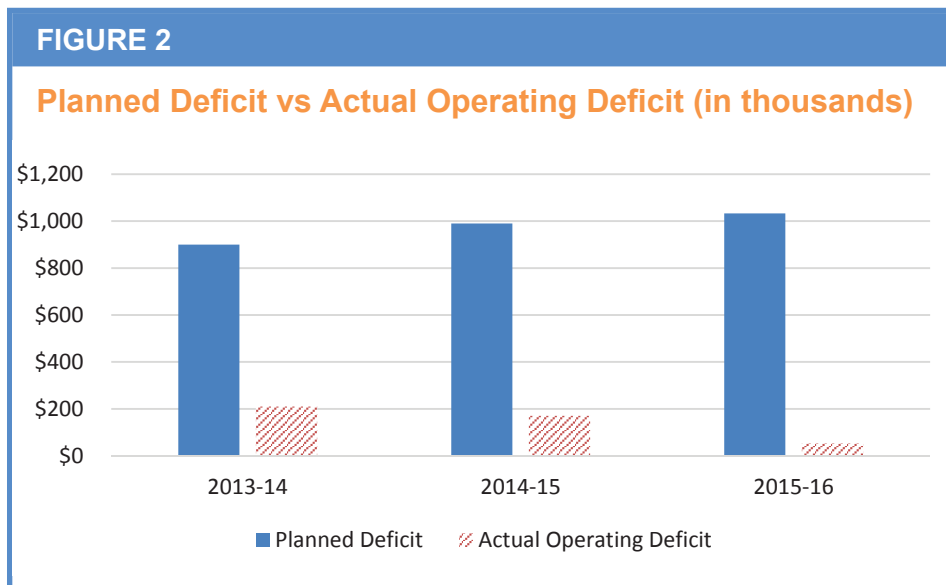
**FIGURE 1: Overestimated Appropriations**

	Appropriations	Actual Expenditures	Overestimated Appropriations	Percentage Overestimated
<b>2013-14</b>	\$10,193,219	\$9,490,247	\$702,972	7%
<b>2014-15</b>	\$10,446,117	\$9,642,713	\$803,404	8%
<b>2015-16</b>	\$10,792,137	\$9,775,592	\$1,016,545	10%
<b>Total</b>	<b>\$31,431,473</b>	<b>\$28,908,552</b>	<b>\$2,522,921</b>	<b>9%</b>

We reviewed the District’s budget to actual reports showing individual accounts for fiscal years 2013-14 through 2015-16 and found that some of the overestimated expenditures were for utility costs<sup>1</sup> (\$240,000 or 54 percent), transportation fuel (\$147,000 or 81 percent) and auto parts and supplies (\$77,700 or 110 percent). The remaining overestimated expenditures were distributed throughout the budget.

The Board President, Superintendent and Business Manager told us that the Board prefers to budget conservatively. For example, the Board prefers to estimate utility costs higher for building operation and for transportation due to the uncertainty of the winter weather.

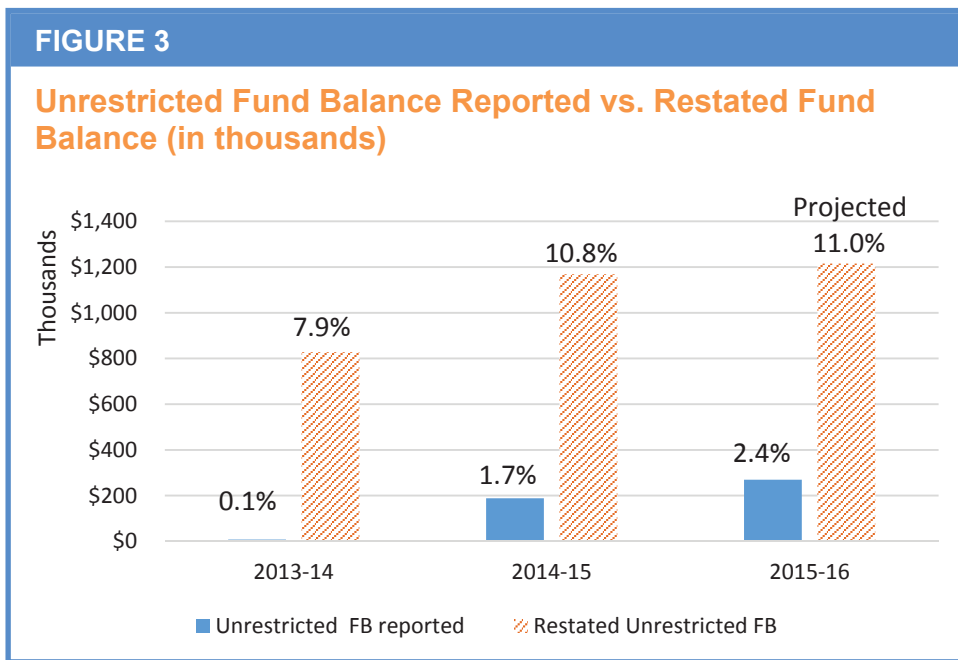
Because the Board overestimated appropriations, it appeared that the District needed to both increase its tax levy and use appropriated fund balance to close projected budget gaps. The Board increased the real property tax levy<sup>2</sup> by approximately \$300,000, or 9.1 percent, from 2013-14 to 2016-17, and appropriated \$2.9 million (a yearly average of \$974,000) in fund balance in the 2013-14 through 2015-16 budgets. When fund balance is appropriated for the ensuing year’s budget, the expectation is that there will be a planned operating deficit equal to the amount of fund balance that was appropriated. However, the District realized cumulative operating deficits totaling about \$432,000 (averaging \$144,000 annually) over this three-year period.



1 Electricity, telephone, fuel oil and propane

2 The District tried twice to override the tax levy limit (tax cap) for 2015-16, but it did not get the 60 percent voter approval required to pass the override. This resulted in the District adopting a contingency budget in 2015-16 with no increase in the tax levy from the prior year. The voters did approve an override of the tax levy limit for 2016-17.

By including significant amounts of appropriated fund balance in the budgets that was not needed, the Board made it appear that the District had less unrestricted fund balance than it actually had. Over the past three completed fiscal years, the District reported unrestricted fund balance that ranged from 0.1 percent to 2.4 percent of the ensuing years appropriations, which is well within the 4 percent limit allowed by RPTL. However, when unused appropriated fund balance is added back<sup>3</sup> to the reported unrestricted fund balance, the District’s recalculated unrestricted fund balance ranged from 7.9 to 11 percent.



Given these restated fund balance levels, the Board may have levied more taxes than necessary to sustain District operations.

### How Should the Board Ensure Balances in Reserve Funds are Reasonable?

While school districts are generally not limited as to how much money can be held in reserves, balances should be reasonable. Therefore, it is important that the Board adopt a written policy that communicates its rationale for establishing reserve funds, objectives for each reserve, targeted funding levels and conditions under which reserves will be used or replenished. The Board should periodically assess the reasonableness of the amounts accumulated in each reserve. When

<sup>3</sup> The District did not use \$820,000 of the \$990,000 fund balance appropriated for 2014-15 and it did not use \$980,000 of the \$1.03 million appropriated for 2015-16. Based on projected 2016-17 year-end operating results, as provided to us by District officials, it is estimated that the District will not need to use \$946,000 of the \$1.03 million in fund balance appropriated in the 2016-17 budget.

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warranted, and in accordance with statute, the Board should reduce reserve balances to a reasonable level, or liquidate and discontinue any reserve that is no longer needed or whose purpose has been achieved.<sup>4</sup>

### **The Board Has Not Adopted a Reserve Fund Policy and Some Reserves are Overfunded**

The Board did not adopt a written policy and needs to increase its oversight of the District's reserves. As of June 30, 2016, the District reported seven<sup>5</sup> general fund reserves totaling approximately \$2.4 million and a debt reserve of approximately \$156,000 in the debt service fund.

We analyzed the reasonableness of the balances in each of these reserves and found that, with the exception of the unemployment, tax certiorari and debt reserves, the balances appear to be reasonable.

- The unemployment reserve is significantly overfunded, with a balance at the end of the 2015-16 year of more than \$743,000. Over the last three years the District has paid out an average of \$532 per year in unemployment expenditures. Based on this level of expenditure, the District should significantly reduce the funds held in this reserve.
- The tax certiorari reserve<sup>6</sup> had a balance of \$250,000 at the end of the 2015-16 year and had been reduced from approximately \$852,000 in 2013-14 when the Board opted to allocate \$602,000 to the District's unrestricted fund balance and capital reserve. According District officials, the Board chose to leave \$250,000 in the tax certiorari reserve in the event they receive future assessment challenges. However, balances in tax certiorari reserves must be supported by actual certiorari challenges lodged in the year the money is deposited in the reserve. As of June 30, 2016, the District had no pending tax certiorari claims.
- The debt reserve balance ranged from about \$131,000 to \$156,000 over the last five years, increasing gradually due to Capital Project Fund transfers. The District has made no debt service related expenditures from this reserve in the last five years. Instead, the District continues to fund debt service expenditures through general fund property taxes.

While it is a prudent practice for the District to save for future expenses, the lack of a written reserve policy that communicates the Board's intention for its reserves

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<sup>4</sup> For more information, please refer to our *Local Government Management Guide on Reserve Funds*: <http://www.osc.state.ny.us/localgov/pubs/lmgm/reservefunds.pdf>

<sup>5</sup> Unemployment, Retirement, Property Loss, Insurance, Tax Certiorari, EBALR and Capital.

<sup>6</sup> A tax certiorari reserve can be established to pay judgments and claims in tax certiorari proceedings in accordance with the RPTL. The total amount in this reserve fund may not exceed the amount that might reasonably be deemed necessary to meet anticipated tax certiorari judgments and claims.

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along with retaining more funds than necessary in permissible reserves resulted in missed opportunities to use these funds in a manner that best benefits District residents.

## **How Does Multiyear Planning Improve Budgeting?**

Planning on a multiyear basis allows District officials to identify developing revenue and expenditure trends, set long-term priorities and goals and consider the impact of current budget decisions on future fiscal years. It also allows District officials to assess the impact and merits of alternative approaches to address financial issues, such as the use of fund balance to finance operations and the accumulation of money in Board-authorized reserve funds. Effective multiyear plans project operating and capital needs and financing sources over a three-to-five-year period. These plans should be monitored and updated on an ongoing basis to provide a reliable framework for preparing budgets and to ensure that information used to guide decisions is current and accurate.<sup>7</sup>

## **District Officials Have Not Developed Multiyear Financial Plans**

District officials have not developed comprehensive, written multiyear financial or capital plans. District officials told us that the Board often discusses long term planning during budget preparation and throughout the year. However, they have not formally adopted any written multiyear plans.

The development of formal long-term plans would help District officials address the use of fund balance, including the District's reserve funds, and prioritize and plan for future capital needs. The establishment of multiyear plans including the use of reserve funds would also provide more transparency to District residents on the Board's strategy for addressing its use of the District's fund balance.

## **What Do We Recommend?**

The Board and District officials should:

1. Formulate a plan for the use of excess unrestricted fund balance in the general fund in a manner that benefits District residents. Such uses include, but are not limited to, reducing property taxes, establishing necessary reserves or financing one-time expenditures.
2. Develop and adopt budgets that include realistic estimates for expenditures and the amount of fund balance that will be available and used to fund operations.

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<sup>7</sup> See <http://www.osc.state.ny.us/localgov/planbudget/index.htm>



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3. Develop a written policy that identifies the amount of funds to be reserved, how each reserve will be funded and when the balances will be used to finance related costs.
  4. Review general fund reserve balances at least annually to determine whether the amounts reserved are necessary and reasonable. To the extent that they are not, reserve funds should be reduced to reasonable levels in compliance with statutory restrictions.
  5. Use debt reserve money to pay related debt service expenditures in compliance with statutory requirements.
  6. Develop and adopt a comprehensive multiyear financial and capital plan to establish the goals and objectives for funding long-term operating and capital needs. These plans should be monitored and updated on an ongoing basis.

# Appendix A: Response From District Officials

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## PARISHVILLE - HOPKINTON CENTRAL SCHOOL

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**High School Principal**

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**Program Coordinator**

Brooke L. Reid

June 2, 2017

Rebecca Wilcox, Chief Examiner  
Office of the State Comptroller  
Syracuse Regional Office  
State Office Building, Room 409  
333 E. Washington Street  
Syracuse, NY 13202-1428

Dear Ms. Wilcox,

Parishville-Hopkinton Central School District is in receipt of the Draft Audit Report for the period of July 1, 2015 to November 30, 2016 relating to Financial Management. This also confirms that an exit conference was held May 10, 2017 at 10 AM in the District Office.

The District thanks the Office of the State Comptroller for the time and evaluation of the District's fiscal management. We would like to express our appreciation for the professionalism, thoroughness, and courtesy of the auditors conducting our audit. The audit process was a positive experience and we welcome the opportunity to review and strengthen our financial practices and oversight.

Please allow this letter to serve as the District's response to the Draft Audit findings.

Audit Recommendations:

1. Adopt budgets that include realistic estimates for expenditures.
2. Develop a written policy that indicates the amount of funds to be reserved and how each reserve will be funded.
3. Develop and adopt comprehensive multiyear financial and capital plans.

The District is faced with many uncertainties regarding expenditures when developing a budget. Conservative estimates are used in the budgeting for utilities and fuel costs. The District has reduced the budget lines on these items since the 2013-2014 budget and continued the same in estimating the 2017-2018 budget.

Although not in a written policy, the District does review the existing reserve funds during budget development and periodically during the school year. As pointed out in the report the Unemployment Reserve may be overfunded, due mainly to the uncertainty of State Aid during the years of the GAP Elimination Assessment (GEA), which took funds away from School Districts and the uncertainty of maintaining staff and programs. Parishville-Hopkinton had a cumulative loss of \$2.7 million in State Aid over the six-year period. The District does include

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in its budget transfers from reserves annually the amounts to cover Unemployment, Future Retirement Contribution and Compensated Absences expenses incurred during the year. The School District had tax assessment challenges in recent years from a major taxpayer and since there are no current challenges, we agree that this reserve can be closed out. The third reserve commented on is the Debt Service Reserve. Going forward in the 2017-2018 budget, a line item was added to the budget to pull from this reserve to offset a portion of the District's debt payment.

As your report states the District often discusses long term planning during budget preparation, however they have not yet formally adopted any multiyear plan. The District will work to formalize a long-term policy and plan to address the use of fund balance, including the District's reserve funds, and prioritize and plan for future capital needs.

In conclusion, the Parishville-Hopkinton CSD appreciates and respects the comments and recommendations in the draft report by the staff of the State Comptroller's Office. We continually look for ways to maintain the quality educational programs of our District and to be fiscally responsible to our community.

Sincerely,

Ward Remington  
President, Board of Education  
Parishville-Hopkinton Central School

## Appendix B: Audit Methodology and Standards

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We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We reviewed and analyzed the District's financial records and reports for the general fund, including annual budgets, annual reports, bank statements, budget status reports and general ledgers.
- 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 2013-14 through 2015-16.
- We interviewed District officials about the level of fund balance the District currently has and also if they have a plan to use its reserve funds. We also analyzed the activity in all of the reserves during our audit period.
- We analyzed the trend in fund balance for fiscal years 2013-14 through 2015-16. This included comparing the amount of appropriated fund balance to the amount of appropriated fund balance used and whether the operating deficit was planned.
- We analyzed the District's 2016-17 budget and compared it to the prior year's actual results to determine if the District is overestimating budgeted appropriations.
- We interviewed the Board President and other District officials to determine whether the Board has a long term plan, specifically a long term operational and/or capital plan.

We conducted this performance audit in accordance with GAGAS, 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.

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, pursuant to Section 35 of General Municipal Law, Section 2116-1(3) (c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the 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. We encourage the Board to make the CAP available for public review in the Clerk's office.

## Appendix C: Resources and Services

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### **Regional Office Directory**

[http://www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://www.osc.state.ny.us/localgov/regional_directory.pdf)

### **Cost-Saving Ideas** – Resources, advice and assistance on cost-saving ideas

<http://www.osc.state.ny.us/localgov/costsavings/index.htm>

### **Fiscal Stress Monitoring** – Resources for local government officials experiencing fiscal problems

<http://www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm>

### **Local Government Management Guides** – Series of publications that include technical information and suggested practices for local government management

<http://www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm>

### **Planning and Budgeting Guides** – Resources for developing multiyear financial, capital, strategic and other plans

<http://www.osc.state.ny.us/localgov/planbudget/index.htm>

### **Protecting Sensitive Data and Other Local Government Assets** – A non-technical cybersecurity guide for local government leaders

<http://www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf>

### **Required Reporting** – Information and resources for reports and forms that are filed with the Office of the State Comptroller

<http://www.osc.state.ny.us/localgov/finreporting/index.htm>

### **Research Reports / Publications** – Reports on major policy issues facing local governments and State policy-makers

<http://www.osc.state.ny.us/localgov/researchpubs/index.htm>

### **Training** – Resources for local government officials on in-person and online training opportunities on a wide range of topics

<http://www.osc.state.ny.us/localgov/academy/index.htm>

## Contact

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Local Government and School Accountability Help Line: (866) 321-8503

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