

Prattsburgh Central School District

Financial Management

DECEMBER 2020



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

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Report Highlights

Prattsburgh Central School District

Audit Objective

Determine if the Board of Education (Board) and Prattsburgh Central School District (District) officials adequately managed the District's financial condition.

Key Findings

The Board and District officials' actions to manage financial condition were not transparent and more taxes were levied than necessary to fund operations.

- The Board appropriated fund balance totaling \$1.13 million for fiscal years 2016-17 through 2018-19 but none of the money was used or needed to fund operations.
- For the last three fiscal years the District reported that it exceeded the 4 percent statutory surplus fund balance limit, however when unused appropriated fund balance is added back, surplus fund balance exceeded the limit between 11 and 15 percentage points.
- The Board did not develop written multiyear financial and capital plans.

Key Recommendations

- Discontinue appropriating fund balance that is not needed or used to fund operations.
- Comply with the surplus fund balance legal limit and use the excess funds in a manner that benefits taxpayers.
- Develop comprehensive multiyear financial and capital plans.

District officials generally agreed with our recommendations and indicated they planned to initiate corrective action. Appendix B includes our comment on an issue that was raised in the District's response letter.

Subsequent Event

Our audit fieldwork was completed during the COVID-19 pandemic (pandemic). The District's 2019-20 fiscal year preliminary figures were not reconciled or finalized and our audit work does not factor in the pandemic's ongoing financial effects.

Background

The District is located in the Towns of Prattsburgh, Pulteney, Urbana and Wheeler in Steuben County and the Towns of Italy and Jerusalem in Yates County. The District is governed by the Board which is composed of five elected members. The Board is responsible for the general management control of financial and educational affairs.

The Superintendent of Schools, who is the chief executive officer, also serves as the District's Business Administrator and is responsible, along with other administrative staff, for day-to-day management under the Board's direction.

Quick Facts

2020-21 Fiscal Year General Fund Appropriations	\$10.3 million
Employees	76
Students	345

Audit Period

July 1, 2016 – July 29, 2020

Financial Management

What Is Effective Financial Management?

To effectively manage a school district's financial condition, a board should adopt realistic and structurally balanced budgets based on historical data or known trends, in which reasonable levels of fund balance are maintained. Accurate budget estimates help ensure the tax levy is not greater than necessary.

Fund balance is the difference between revenues and expenditures accumulated over time. A district may retain a portion of surplus fund balance to provide a cushion against unforeseen events and provide for fluctuations in cash flow.¹ New York State Real Property Tax Law (RPTL) currently limits unassigned fund balance to no more than 4 percent of the next year's budget.² Any unassigned fund balance over this percentage must be used to fund needed reserves or reduce the upcoming year's real property tax levy. When fund balance is appropriated for the next year's budget, the expectation is that there will be a planned operating deficit equal to the amount of fund balance that was appropriated.

Prudent fiscal management requires the board to establish comprehensive multiyear financial and capital plans. 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. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period to guide the management of financial condition and identify future capital needs. Continually monitoring and updating these plans provides a reliable framework for preparing budgets and ensures that information used to guide decisions is current and accurate.³

Given the economic uncertainties that have resulted from the pandemic, accurate transparent budgeting and effective long-term planning are essential.

The Board and District Officials' Actions to Manage General Fund Balance Were Not Transparent

The Board, under the guidance of District officials, annually appropriated an average fund balance of \$377,784 as a financing source in each of the last three fiscal years (2016-17, 2017-18 and 2018-19), which should have resulted in

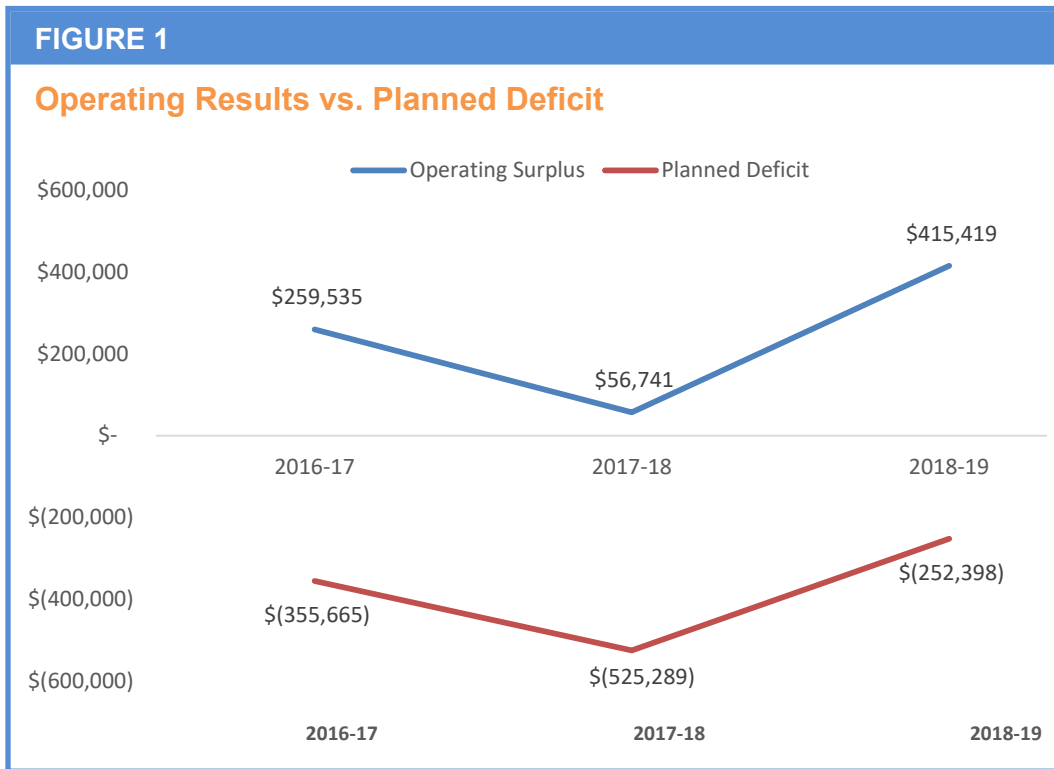
1 Surplus fund balance is defined as unrestricted fund balance minus appropriated fund balance and encumbrances included in committed and assigned fund balance. See our accounting bulletin at www.osc.state.ny.us/localgov/pubs/releases/gasb54.pdf

2 New York State Real Property Tax Law (RPTL) Section 1318

3 Refer to our publications *Multiyear Financial Planning* and *Multiyear Capital Planning* available on our website. www.osc.state.ny.us/files/local-government/publications/pdf/multiyear.pdf
www.osc.state.ny.us/files/local-government/publications/pdf/capital_planning.pdf

annual operating deficits equal to the funds appropriated. However, the Board adopted budgets that conservatively estimated appropriations over these fiscal years, which resulted in operating surpluses of \$731,695, instead of planned deficits. Therefore, appropriated fund balance totaling approximately \$1.13 million was not used as planned. See Figure 1.

...[A]ppropriated fund balance totaling approximately \$1.13 million was not used as planned.



Annually appropriating fund balance that is not needed to fund operations is, in effect, a reservation of fund balance that is not provided for by statute and a circumvention of the statutory limit imposed on the level of surplus fund balance. This budgeting practice also diminishes financial transparency to taxpayers.

Over the past three completed fiscal years (2016-17, 2017-18 and 2018-19), the District reported surplus fund balances exceeding the RPTL 4 percent statutory limit by between approximately 7 and 11 percentage points. When unused appropriated fund balance is added back, surplus fund balance exceeded the statutory limit by between approximately 11 and 15 percentage points. Additionally, the District's independent auditors advised the Board that fund balance was not in compliance in their management letters for the three complete fiscal years audited during our audit period. See Figure 2.

Figure 2: Recalculated Surplus Fund Balance at Fiscal Year-End

Surplus Fund Balance	2016-17	2017-18	2018-19
June 30th Surplus Fund Balance	\$1,050,891	\$1,346,701	\$1,562,048
Unused Appropriated Fund Balance	\$355,665	\$525,289	\$252,398
Total Recalculated Balance	\$1,406,556	\$1,871,990	\$1,814,446
As a Percentage of Next Year's Appropriations			
Recalculated Balance	14.5%	18.9%	17.9%
Statutory Limit	4%	4%	4%

The Board maintained the tax levy at approximately \$2.2 million between the fiscal years 2016-17 and 2018-19. Based on historical and preliminary operating results for the June 30, 2020 fiscal year-end, it is unlikely that the District will use any of the \$367,708 appropriated surplus fund balance for the 2019-20 fiscal year either, resulting in continued excess fund balance. Due to the financial effect of the pandemic, these preliminary figures may change.⁴ However, we included them to show the effect of the Board's inaccurate budgeting. Ultimately, the Board's general fund budgeting practices made it appear that the District needed to appropriate surplus fund balance to close projected budget gaps. However, the District realized operating surpluses and appropriated fund balance was not needed to finance operations. Given the District's budgeting practices and fund balance levels, the Board levied more taxes than necessary to sustain operations and may have missed opportunities to more effectively manage fund balance.

The Board Did Not Adopt Multiyear Plans

The District completed a \$3.1 million capital project during the audit period and in June of 2020 received voter approval for a \$7.5 million capital project, which includes many improvements and upgrades to its facilities. However, District officials did not develop written multiyear financial and capital plans.

Well-designed multiyear plans, which include specific estimates for revenues, expenditures, reserves, fund balance and long-term capital needs can assist the Board and District officials in effectively managing finances, addressing the use of surplus fund balance and planning for the reasonable and proper use of reserve funds.

Our fieldwork was completed in July 2020, during the pandemic. Given the negative financial effect of the pandemic, it is even more important for District officials to develop and monitor appropriate annual budgets and begin multiyear financial and capital planning.

District officials did not develop written multiyear financial and capital plans.

⁴ The 2019-20 fiscal year figures provided by District officials were not reconciled or finalized.

What Do We Recommend?

The Board should:

1. Discontinue the practice of appropriating fund balance that is not needed or used to fund operations.
2. Develop a plan to reduce the amount of surplus fund balance in a manner that benefits taxpayers. Surplus fund can be used as a financing source for:
 - Funding one-time expenditures.
 - Funding needed reserves.
 - Paying off debt.
 - Reducing District property taxes.
3. Develop comprehensive multiyear financial and capital plans to provide a framework for future budgets, guide District officials' management of financial condition and identify future capital needs. The plans should be periodically reviewed and updated.

Appendix A: Response From District Officials

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Edward V. Grant Jr.
Chief Examiner
Office of the State Comptroller
Division of Local Government and School Accountability
16 West Main Street Suite 522
Rochester New York 14614

Dear Mr. Grant,

The Prattsburgh Central School District Board of Education and Administration submit this letter as its official response for the recent examination of the district's financial condition. While we understand the findings and will use your findings to continue to improve our practices and procedures, we would like to include some clarification from the district's perspective.

Your first finding was that the district's actions to manage fund balance were not transparent, and your recommendations are as follows:

1. Discontinue the practice of appropriating fund balance that is not needed or used to fund operations.

The Board of Education has authorized these budgets but has consistently taken the stance that we will spend very conservatively throughout the fiscal year if unforeseen or emergency expenses arise. For example, one high-needs special education student enrolling in a district our size could be devastating to the budget. In terms of transparency, this plan was fully publicized and planned during our annual budget process, with full disclosure.

2. Develop a plan to reduce the amount of surplus fund balance in a manner that benefits taxpayers. Surplus funds can be used as a financing source for:
 - Funding one-time expenditures.
 - Funding needed reserves.
 - Paying off debt.
 - Reducing district property taxes.

The district has consistently used surplus fund balance to fund one-time expenditures. Recently, we have used surplus funds to purchase district wide furniture for all classrooms, and technology purchases such as one-to-one devices for students and promethean boards in all

See
Note 1
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classrooms. We have also used surplus funds to fund needed reserves. The past two fiscal years we have funded the Teacher Retirement Reserve at the maximum allowed in order to protect the district from future liabilities. We have used surplus funds to pay off debt over the past several years. We have worked with our financial planner to schedule paying off our most recent capital project through the utilization of yearly BANS instead of bonding the debt. This has been a way to use surplus funds and eliminate the debt in a timelier manner. Finally, we have been BELOW the tax cap for several years in a row and have either stayed at a 0% increase or lowered our tax levy. In the 2013-2014 fiscal year, the district levied \$2,636,219 and in the 2020-2021 fiscal year, we are levying \$2,595,000. Therefore, over the course of seven years, our tax levy has decreased by 1.6%. We could find no other examples of this level of tax levy reduction in any New York State public school district during this timeframe.

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3. Develop comprehensive multiyear financial and capital plans to provide a framework for future budgets, guide district official's management and financial condition and identify future capital needs. The plans should be periodically reviewed and updated.

The district has annually approved a fund balance plan, and it is also revised and updated annually. We appreciate the feedback your team provided and will use that guidance to continue to improve our practices. Please also note that the current COVID-19 crisis and a zero percent tax increase contributed to a decrease in fund balance as of June 30, 2020. In addition, the District again did not increase property taxes for 2020-2021 and anticipates a significant decrease in fund balance on June 30, 2021, especially if the state fulfills its warning to reduce state aid by twenty percent.

Once again, we understand your findings and appreciate the feedback that we will use to develop our corrective action plans.

Respectfully,

Kory G. Bay
Superintendent

cc. Amy Dlugos, Board of Education President

Appendix B: OSC Comment on the District's Response

Note 1

The Board consistently adopted budgets that overestimated appropriations and included \$1.13 million in surplus funds to cover planned deficits, however none of the surplus funds were used because appropriations were overestimated. As a result, the budgets presented to the public were not transparent and more real property taxes than necessary were levied.

Appendix C: Audit Methodology and Standards

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, our audit procedures included the following:

- We interviewed District officials to gain an understanding of budgeting practices and cash controls.
- We reviewed Board minutes, relevant policies and procedures and any long-term plans.
- We analyzed general fund operating results for fiscal years 2016-17 through 2018-19.
- We assessed general fund appropriated fund balance for fiscal years 2016-17 through 2018-19, and recalculated unassigned fund balance to include unused appropriated fund balance to determine whether the District exceeded the statutory fund balance limit in any year.
- We analyzed the 2019-20 fiscal year preliminary financial figures to determine how accurate budget estimates were, whether appropriated fund balance was used and the fund balance composition at year-end.

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

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.

The Board has the responsibility to initiate corrective action. 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-a(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 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 CAP should be posted to the District's website for public review.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional_directory.pdf

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

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263196&issued=All

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

www.osc.state.ny.us/local-government/fiscal-monitoring

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

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263206&issued=All

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

www.osc.state.ny.us/local-government/resources/planning-resources

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

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/cyber-security-guide.pdf

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

www.osc.state.ny.us/local-government/required-reporting

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

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263211&issued=All

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

www.osc.state.ny.us/local-government/academy

Contact

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