

Harpursville Central School District

Financial Condition

SEPTEMBER 2018



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

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Report Highlights

Harpursville Central School District

Audit Objective

Determine whether District officials adequately managed the District's financial condition.

Key Findings

- From 2013-14 through 2015-16, the District adopted budgets that planned to use \$1.6 million of general fund balance and certain reserve funds to finance operating expenditures. However, the general fund incurred operating deficits totaling \$4.8 million during this time. As a result, the District used \$3.2 million more fund balance and reserves than planned.
- In 2016-17, revenues began to outpace expenditures; revenues increased by more than 5 percent, while expenditures increased by less than 1 percent. Expenditures declined due to District cost reduction measures.
- District officials improved their budgeting practices in 2016-17 by considering historical trends, resulting in expenditure and revenue variances of 3 percent and 1 percent, respectively.

Key Recommendations

- Continue to reduce reliance on fund balance to finance recurring expenditures.

District officials generally agreed with our recommendation and indicated they planned to continue to work toward meeting our recommendation.

Background

The Harpursville Central School District (District) serves five towns in Broome County and three towns in Chenango County.

The Board of Education (Board), which is composed of seven elected members, is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The District is a component unit of the Broome-Tioga Board of Cooperative Educational Services (BOCES) and contracts with BOCES for many services, including special education services and central business office services.

Quick Facts

Employees	161
Enrollment	787
2018-19 Budget	\$19.6 million

Audit Period

July 1, 2016 – April 24, 2018

We extended our audit period back to July 1, 2013 to analyze financial trends.

Financial Condition

How Does a Board Effectively Manage Financial Condition?

A school district's board and officials are responsible for effectively managing financial operations. Fund balance represents resources remaining from prior fiscal years that can be used to finance the next year's budget or set aside in reserve funds for specific purposes. Boards may retain a portion of fund balance for unexpected events and cash flow but must do so within statutory limits. Currently, New York State Real Property Tax Law¹ limits the amount of unrestricted fund balance that a school district can retain to no more than 4 percent of the subsequent year's budgeted appropriations.

An important part of managing a district's finances is the budget process. Boards should adopt structurally balanced budgets based on prior years' results of operations. When budgeted revenues do not fully finance appropriations, district officials may either appropriate fund balance or reduce spending to make the budget balance. An appropriation of fund balance is considered a nonrecurring or "one-time" financing source.

District Officials Stabilized Expenditure Growth

From 2013-14 through 2015-16, the Board and District officials adopted budgets that appropriated \$1.6 million of general fund balance and certain reserve funds to finance operating expenditures. During this period, the general fund incurred operating deficits totaling \$4.8 million (Figure 1). As a result, the District used \$3.2 million more fund balance and reserves than planned. This reduced total fund balance by \$4.8 million (52 percent) to \$4.4 million as of June 30, 2016. Although the general fund balance continued to decline in 2016-17, the actual operating deficit was less than planned.

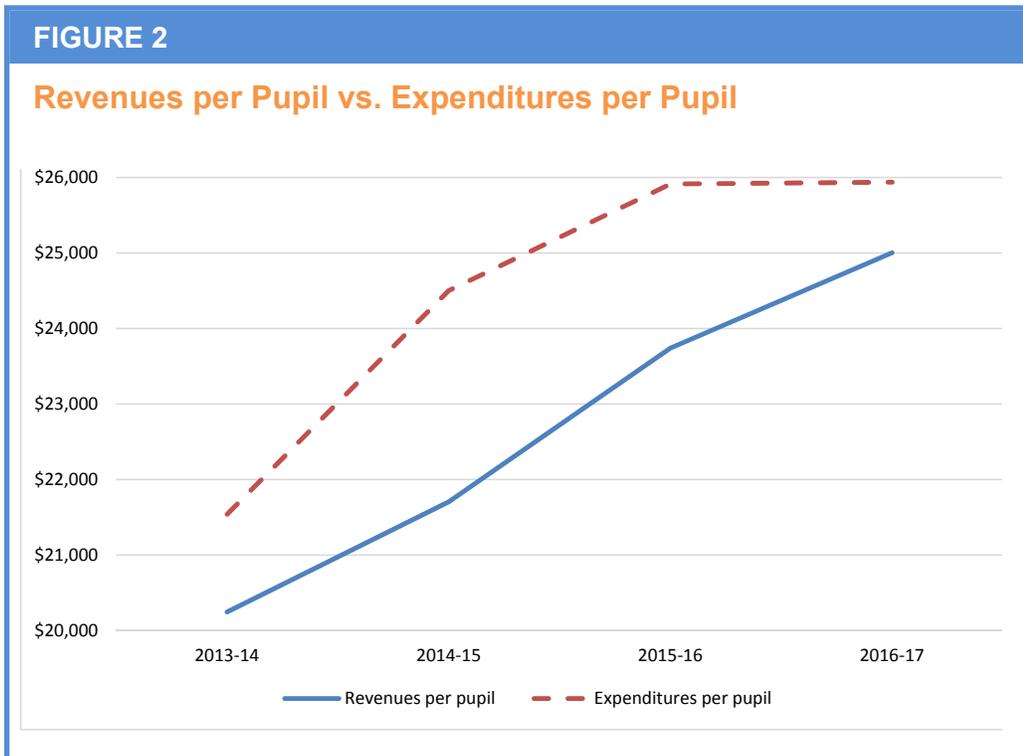
Figure 1: General Fund Planned Results vs. Actual Results

	2013-14	2014-15	2015-16	2016-17
Appropriated Reserves	\$0	\$237,513	\$209,170	\$312,584
Appropriated Fund Balance	\$443,841	\$125,161	\$594,445	\$700,000
Planned Operating Surplus/ (Deficit)	(\$443,841)	(\$362,674)	(\$803,615)	(\$1,012,584)
Actual Operating Surplus/ (Deficit)	(\$1,041,320)	(\$2,203,548)	(\$1,590,555)	(\$616,834)
Ending Total Fund Balance	\$8,225,942	\$6,022,394	\$4,396,431^a	\$3,779,597

a The 2015-16 ending total fund balance includes a prior period adjustment (decrease) of \$35,408.

¹ New York State Real Property Tax Law Section 1318(1)

The District's fund balance steadily declined because expenditures increased at a faster rate than revenues. For example, revenues per pupil increased by 17 percent from 2013-14 through 2015-16, while expenditures per pupil increased by 20 percent (Figure 2). This was primarily caused by increases in salaries (12 percent, or \$812,416), debt service (133 percent, or \$686,106) and contractual expenditures (11 percent, or \$622,187).



In 2016-17, revenue growth began to outpace expenditures, increasing by more than 5 percent, while expenditures increased by less than 1 percent. This revenue increase was average compared to historical trends, but the expenditures declined because District officials implemented cost reduction measures. More specifically, officials eliminated eight teaching positions from 2013-14 through 2016-17, which saved the District approximately \$350,000. Furthermore, District officials told us special education costs stabilized once the District began providing certain special education programs in-house instead of using the Board of Cooperative Education Services (BOCES) to provide them.

District Officials Improved Budgeting

From 2013-14 through 2015-16, District officials underestimated expenditures by an average of 10 percent (\$1.7 million) per year. The expenditure variances were primarily caused by contractual BOCES services, which were underestimated by an average of 57 percent (\$1.5 million) per year during this period. These variances occurred because the budgets were not based on historical trends. Instead, District officials increased the prior year's budgeted amounts by a set percentage.

In 2016-17, the District developed a more realistic budget by considering historical trends, resulting in expenditure and revenue variances of 3 percent and 1 percent, respectively. This was primarily due to budgeting practices implemented by the Superintendent with assistance from the BOCES central business office. For example, the variance for contractual BOCES services improved by 89 percent, from a \$1.5 million variance to a \$176,000 variance, from the previous three years.

We project that the general fund will end 2017-18 with an operating surplus of \$191,000, resulting in an ending total fund balance of approximately \$4 million. Furthermore, District officials appropriated less fund balance (\$500,000) in the 2018-19 adopted budget. Although District officials have stabilized costs and improved budgeting, continued reliance on fund balance to fund operations increases the risk of future deficits and financial condition problems.

What Do We Recommend?

1. The Board should continue to reduce its reliance on fund balance to finance recurring expenditures.

Appendix A: Response From District Officials



Michael J. Rullo
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August 29, 2018

H. Todd Eames
Chief Examiner
State Office Building, Suite 1702
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Binghamton, New York 13901-4417

Dear Mr. Eames,

The Harpurville Central School has received and reviewed the report of examination related to the district's financial condition covering the period July 1, 2016-April 24, 2018, including an analysis of financial trends dating back to July 1, 2013. The district appreciated the process, the professionalism of the OSC staff, and the information provided through the examination. Please consider this our response and Corrective Action Plan for the Fiscal Condition Audit conducted for Harpurville Central School.

In the fall of 2015, the district acknowledged the trends of the previous years from a budgetary perspective and began taking action. In fact, we consulted with our local OSC office in the spring of 2016. The district has worked diligently over the past several years to stabilize expenditure growth and improve budgeting practices. Notably, our two consecutive years of budget decreases provides evidence of those facts. We appreciate recognition by your office that these were effective approaches which have helped to improve the financial condition of the school district, resulting in a projected operating surplus for the 2017-2018 school year. Furthermore, the 2017-2018 budget performed significantly better than anticipated, which increased fund balance by adding to reserves.

School districts, in general, are often left to wrestle with a revenue projection that doesn't match the rate at which expenditures are growing. This is exacerbated in districts like ours which have a heavy reliance on state aid and a difficult time generating additional revenue through the local share. As such, there is no choice but to work to control expenditure growth as a means to balancing a budget. This, furthermore, forces a district to conduct a careful analysis, on an annual basis, of its budgeting practices and decisions.

Throughout the budgeting process of the past three years, the district has established and adhered to budget goals including eliminating the structural deficits exhibited in previous year's budgets and reducing or eliminating the use of reserves as a means of balancing the budget. With a focus on these goals, the district continues to make significant budgetary progress within a short period of time. The recommendation provided in the audit report that "The Board should continue to reduce its reliance on fund balance to finance recurring expenditures" is consistent with the Board's approach to budgeting and financial management throughout the school year. The Board will continue to work toward meeting this recommendation, as well as its other financial goals. If we continue to operate in the manner of the recent past, we will continue on the trajectory of improving the financial condition of the district.

Sincerely,


Michael Rhodes
Board of Education President


Michael J. Rullo
Superintendent of Schools

Appendix B: 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 officials to determine causes for the District's financial position and gain an understanding of the budget process. Additionally, we discussed methods officials used to reduce expenditure growth.
- We analyzed results of operations and fund balance trends from 2013-14 through 2016-17 to gain an understanding of the District's financial condition throughout the audit period.
- We examined budget-to-actual reports to determine overall variances and specific account variances.
- We projected the 2017-18 results of operations to estimate the District's financial position at the end of the current fiscal year.

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

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

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

www.osc.state.ny.us/localgov/costsavings/index.htm

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

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

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lgmg

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

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

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

www.osc.state.ny.us/localgov/finreporting/index.htm

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

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

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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