



# Hunter-Tannersville Central School District Financial Condition

## Report of Examination

Period Covered:

July 1, 2010 — June 30, 2013

2013M-376



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

March 2014

Dear School 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 Hunter-Tannersville Central School District, entitled Financial Condition. 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 Hunter-Tannersville Central School District (District) is located in Greene County within the Towns of Hunter, Jewett and Lexington. The District is governed by the Board of Education (Board), which comprises five 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 District's chief executive officer and is responsible for the District's daily operations and development and administration of the budget under the Board's direction. The Business Manager function is provided by the Otsego-Northern Catskills Board of Cooperative Educational Services (BOCES), which is responsible for maintaining the District's accounting records.

The District operates two schools, with 353 students and 107 employees. During the 2012-13 fiscal year, the District had operating expenditures of \$12.8 million, funded primarily with real property taxes and State aid. The District's budgeted expenditures for the 2013-14 fiscal year were \$13.9 million.

## Objective

The objective of our audit was to review the District's financial condition. Our audit addressed the following related question:

- Did the Board and District officials adequately monitor the District's financial operations to ensure fiscal stability?

## Scope and Methodology

We examined the District's financial condition for the period of July 1, 2010 through June 30, 2013.

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. Appendix B contains 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 Condition

A school district's financial condition is a primary factor in determining its ability to continue providing public educational services for students within the district. The Board and Superintendent are accountable to taxpayers for the use of District resources and are responsible for effective financial planning and management of District operations. A key measure of a district's financial condition is its level of fund balance. When maintained at reasonable levels, fund balance can provide cash flow, help finance the next fiscal year's operations, or help manage unexpected costs. Real Property Tax Law limits the amount of unrestricted, unappropriated fund balance a school district can retain to no more than 4 percent of the next year's budgeted appropriations. Therefore, it is essential that District officials develop reasonable budgets and manage fund balance responsibly and in accordance with statute.

For fiscal years 2010-11 through 2012-13, the District's unrestricted unappropriated fund balance exceeded the 4 percent statutory limit. However, the District's fund balance has declined as a result of planned operating deficits and appropriating fund balance to finance the planned deficits. Specifically, the District's unrestricted, unappropriated fund balance has decreased by about 41 percent, from approximately \$1.3 million beginning in fiscal year 2010-11 to about \$755,000 in fiscal year 2012-13. As such, the amount of unrestricted, unappropriated fund balance as a percent of the ensuing year's budgeted appropriations declined from 9.7 percent in fiscal year 2010-11 to 5.4 percent in fiscal year 2012-13.

The Board has budgeted to further reduce unrestricted, unappropriated fund balance by using it to fund a planned operating deficit in the fiscal year 2013-14 budget. With this appropriation of fund balance, the District's unrestricted unappropriated fund balance is projected to be 4.8 percent of the ensuing year's appropriations, which is still above the 4 percent statutory limit. While we encourage the District to bring its fund balance within the statutory limit, District officials now need to be mindful of the amount of fund balance they will appropriate going forward. The continued appropriation of fund balance will deplete it, and District officials will have to identify other revenue sources to fund future budgets. Further, the Board has not adopted a multiyear financial plan to allow it to effectively manage its future finances. Such a plan would have helped the Board to monitor and plan for the use of fund balance.

## Fund Balance

An appropriation of fund balance is the use of unexpended resources from prior years to finance budgeted appropriations. It is considered a non-recurring financing source that can be used when a school district has accumulated an adequate level of surplus fund balance. However, when a school district has planned or unplanned operating deficits each year, it will gradually deplete the unrestricted unappropriated fund balance until it turns into a deficit fund balance, thereby leaving nothing available to be used for financing successive budgets. This will result in the need to either increase revenues (e.g., property taxes) and/or decrease appropriations (e.g., services) to adopt a structurally balanced budget.

An operating deficit occurs when expenditures are greater than the revenues. Over the past three fiscal years, District officials planned for operating deficits ranging from \$996,162 in fiscal year 2010-11 to \$368,120 in fiscal year 2012-13. Fund balance was appropriated in each of the three years, for a cumulative total of approximately \$2.2 million, to finance the planned deficits, as shown in Table 1.

	FY 2010-11	FY 2011-12	FY 2012-13
Revenue	\$12,192,239	\$11,950,715	\$12,480,712
Expenditures	\$13,188,401	\$12,757,389	\$12,848,832
Operating Surplus/(Deficit)	(\$996,162)	(\$806,674)	(\$368,120)

The effect of appropriating fund balance was to reduce unrestricted unappropriated fund balance from 9.7 percent to 5.4 percent of the ensuing year's appropriations over the three-year period ending June 30, 2013, as shown in Table 2.

	FY 2010-11	FY 2011-12	FY 2012-13
Total Fund Balance	\$4,959,932	\$4,153,258	\$3,785,138
Operating Surplus/(Deficit)	(\$996,162)	(\$806,674)	(\$368,120)
Total Unrestricted, Unappropriated Fund Balance	\$1,282,100	\$1,472,927	\$755,441
Unrestricted, Unappropriated Fund Balance as a Percentage of Next Year's Budget Appropriations	9.7 %	11.2 %	5.4 %

For the 2013-14 fiscal year, the District appropriated fund balance of \$1,211,694 to cover the year's budgeted planned deficit. With this appropriation of fund balance, the District's unrestricted unappropriated fund balance is projected to be 4.8 percent of the ensuing year's appropriations. While we encourage the District to bring the fund balance within the 4 percent statutory limit, District officials need to be mindful of the amount of fund balance to be used going forward. The continued appropriation of fund balance will

deplete it, and District officials will have to identify other revenue sources to fund future budgets. The District has to ensure a reasonable level of unrestricted, unappropriated funds is maintained in the event of unforeseen financial circumstances. Maintaining a reasonable level of unrestricted, unappropriated funds is a key element of effective long-term financial planning.

## **Multyear Financial Planning**

Multyear financial planning is a tool that school districts can use to improve the budget development process. Effective multyear plans allow the Board and District officials to project operating and capital needs and financing sources over a three- to five-year period and allow them to identify developing revenue and expenditure trends, set long-term priorities and goals and avoid large fluctuations in tax rates. Multyear plans also allow District officials to assess the effect and merits of alternative approaches to address financial issues, such as the use of unrestricted, unappropriated fund balance to finance operations. Long-term financial plans work in conjunction with Board-adopted policies and procedures to provide necessary guidance to employees on the financial priorities and goals set by the Board. Any long-term financial plan should be monitored and updated on an ongoing basis to ensure that the Board's decisions are guided by the most accurate information available.

A District official told us that the Board has not approved a multyear financial plan because it needs to determine how to overcome the District's operating deficits prior to adopting a plan. However, such a plan would have been a helpful tool for the Board to monitor fund balance and determine how much to appropriate to fund ensuing years' appropriations. According to the District official, the Board will take into account the benefits of adopting a multyear plan during a future Board retreat. The failure to use a multyear financial plan could inhibit the Board's ability to effectively manage District finances.

## **Recommendations**

1. The Board should ensure that the amount of the District's unrestricted, unappropriated fund balance is in compliance with Real Property Tax Law statutory limits.
2. The Board also should closely monitor the District's use of unrestricted, unappropriated fund balance to ensure that action is taken, if necessary, to identify the use of other funding sources for District operations if these moneys are no longer available, or adjust appropriations accordingly.
3. The Board should develop a comprehensive multyear financial plan to establish long-term objectives for funding long-term needs.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



**HUNTER-TANNERSVILLE CSD**

**Patrick Darfler-Sweeney, Ed.D.**

**Superintendent of Schools**

**Denise Abrahamsen, Secretary to the Superintendent & Board Clerk**

**Marianne Romito, District Treasurer**

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March 5, 2014

Ms. Tenneh Blamah  
Chief Examiner of Local Government &  
School Accountability  
Newburgh Regional Office  
33 Airport Center Drive, Suite 103  
New Windsor, NY 12553

Dear Ms. Blamah:

The purpose of this letter is to provide a response to the draft audit presented to our school district on February 7, 2014. The process of the audit was conducted with a high level of professionalism and we wish to thank the Examiners for their diligence.

The draft audit centered on two areas: our unappropriated fund balance which is currently 1.4% above the 4% maximum and the recommendation we have both a three year and five year fiscal plan for the District. Both findings, we feel, lack sufficient context as to the fiscal condition of the State generally and our District specifically.

The New York State Comptroller's Office rated our school district at "moderate risk" for environmental factors that impact our fiscal stability; there is no mention of this in the draft report. Additionally, there is no mention of reduced state aid since 2008 combined with a tax levy cap law that further reduces our district's ability to recover/seek revenue sources. Conclusions absent appropriate context yield skewed results.

Recommending a three and five year fiscal plan is a challenge when our state government will not guarantee aid amounts (frozen foundation aid, and GEA for example) nor will the NYS Comptroller's office provide

See  
Note 1  
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**Board of Education**  
**Penny Fromer, President**  
**Eric Thorpe, Vice-President**  
**John Berger**  
**Melissa Glennon**  
**Erika Haines**

definitive rate amounts for retirement contributions. These two factors are major revenue and expense components in our annual budgets that determine our resultant tax levy rate. Context, provided by these facts should also be presented so that a more complete understanding of the complexity of the findings & recommendations can be understood.

Respectfully Submitted,

Dr. Patrick Darfler-Sweeney  
Superintendent of Schools

Cc: Penelope Fromer, President, Board of Education  
John Lynch, School Attorney  
Denise Abrahamsen, District Clerk  
Marianne Romito, District Treasurer  
Denise Wist, School Business Official-ONC BOCES

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Penny Fromer, President  
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John Berger  
Melissa Glennon  
Erika Haines

## **APPENDIX B**

### **OSC COMMENT ON THE DISTRICT'S RESPONSE**

#### Note 1

Short-term and long-term financial planning are basic, yet essential, management tools. Financial planning provides a road map and guidance for the District's operations and helps management identify potential problems and develop relevant solutions, including the evaluation of the District's appropriations and use of fund balance.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the District's financial condition and identify areas where the District could realize efficiencies and protect assets from loss or misuse. To accomplish this, our initial assessment included a comprehensive review of the District's financial condition.

To achieve our financial condition objective and obtain valid audit evidence, we performed the following audit procedures:

- We reviewed the District's policies and procedures for developing and reporting information relevant to financial and budgeting activities; this included gaining information on the fiscal responsibilities of District officials.
- We interviewed District officials to determine what processes were in place and gain an understanding of the District's financial situation and budget.
- We reviewed and analyzed the District's financial records and reports for all funds, including balance sheets, budget reports and statements of revenues and expenditures.
- We determined if the District's multiyear financial plan existed, was approved by the Board and was up-to-date.

We conducted this performance audit in accordance with 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.

## APPENDIX D

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