

Eldred Central School District

Financial Condition

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

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Report Highlights

Eldred Central School District

Audit Objective

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

Key Findings

- The Board relied on unrestricted fund balance to fund recurring expenditures. As of June 30, 2017, the District's unrestricted fund balance was less than 0.5 percent of 2018 appropriations. The District's unrestricted fund balance had been completely exhausted as of June 30, 2018.
- The school lunch fund relies heavily on general fund subsidies and loans. As of June 30, 2017, the school lunch fund owed the general fund over \$100,000 that it may not be able to pay back.

Key Recommendations

- Establish a multiyear financial plan that seeks to fund recurring expenditures with recurring revenues.
- Implement cost savings and revenue enhancements for the school lunch fund to be less reliant on the general fund for subsidies and loans.

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

Background

The Eldred Central School District (District) provides educational services for four towns in Orange and Sullivan Counties. 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 responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction. The District Treasurer (Treasurer) is responsible for administering District finances and accounting records and reports.

Quick Facts

Employees	86
Enrollment	570
2017-18 Budgeted General Fund Appropriations	\$17.2 million

Audit Period

July 1, 2016 – June 30, 2018

We extended our audit period back to July 1, 2014 to analyze financial trends.

Financial Condition

How Should the Board Properly Manage the District's Financial Condition?

A school district's financial condition is a determining factor in its ability to provide educational services to students. The board and district officials are accountable to district taxpayers for the use of financial resources and for planning and managing financial operations. While fund balance can be used to finance operations, continually financing operating deficits with fund balance can negatively affect financial condition. Sound fund balance management includes adopting a multiyear plan for the maintenance and use of unrestricted fund balance and reserves. The multiyear plan could assist in creating realistic budgets and help ensure that funding will be available to sustain operations, address unexpected occurrences and satisfy long-term obligations or future expenditures.

The board and district officials are responsible for effectively managing the school lunch fund's financial condition. This includes having a reasonable plan for their school lunch operations where subsidies are not required to sustain the fund. To assist the school lunch fund in being self-sufficient, district officials should analyze operations to identify production inefficiencies.

The Board Did Not Properly Manage the District's Financial Condition

While the Board's budget estimates were reasonable,¹ the Board adopted structurally unbalanced budgets and relied on fund balance to finance recurring expenditures over the past several years. More specifically, the general fund incurred planned deficits totaling \$1.2 million, reducing total fund balance from \$2.9 million at the beginning of 2014-15 to \$1.7 million at the end of 2016-17, or a 41 percent reduction. While reserve fund balances were generally reasonable, as of June 30, 2017, the District's unrestricted fund balance was less than .5 percent of 2018 appropriations. Furthermore, as of June 30, 2017, the school lunch fund owed the general fund over \$100,000 that officials may not be able to pay back. The District experienced another significant deficit of \$286,000² for 2017-18, which has completely depleted unrestricted fund balance (Figure 1).

¹ From 2014-15 through 2016-17, revenue variances were an average of -0.3 percent and expenditure variances were an average of 1.1 percent.

² According to unaudited information available at year end

Figure 1: Unrestricted Fund Balance at Year-End

	2014-15	2015-16	2016-17	2017-18
Beginning Fund Balance	\$2,899,474	\$2,261,651	\$1,921,068	\$1,712,278
Results of Operations	(\$637,823)	(\$340,585)	(\$208,790)	(\$285,351)
Ending Fund Balance	\$2,261,651	\$1,921,066	\$1,712,278	\$1,426,927
Less: Reserves and Encumbrances	\$1,547,531	\$1,406,816	\$1,441,843	\$1,441,843
Less: Appropriated Fund Balance for the Subsequent Year	\$600,000	\$500,000	\$200,000	\$0
Unrestricted Fund Balance at Year-End	\$114,120	\$14,250	\$70,435	(\$14,916)
Subsequent Year's Budgeted Appropriations	\$16,597,985	\$16,989,213	\$17,172,172	\$16,848,150
Unrestricted Fund Balance as a Percentage of the Subsequent Year's Budget	0.7%	0.1%	0.4%	(0.09%)

Several factors contributed to the District's deteriorating financial condition. For example, District officials did not implement recommendations from our previous audit.³ More specifically, we recommended that officials reduce their reliance on fund balance as a financing source; however, officials continued to use fund balance in an effort to keep tax increases below the tax cap.⁴ Furthermore, officials did not address our recommendation relating to the school lunch fund's reliance on general fund subsidies to finance its operations. For example, in each of the last three fiscal years, officials transferred an average of \$87,000 from the general fund to the school lunch fund, or 22 percent of the general fund's average operating deficits. Finally, District officials did not establish a multiyear financial plan.

We compared the District's expenditures and significant revenues with the seven other school districts in Sullivan County (County).⁵ We found the District's total expenditures per student and student-to-teacher ratios were comparable with the other districts, suggesting that its costs and staffing are comparable to the other schools in the County. However, its State aid-per-student was noticeably lower

3 *Eldred Central School District: Financial Condition and Cafeteria Operations*, 2014M-204, October 2014 <https://www.osc.state.ny.us/localgov/audits/schools/2014/eldred.pdf>

4 With some exceptions, the State's property tax cap limits the amount local governments and most school districts can increase property taxes to the lower of 2 percent, or the rate of inflation. For the last three fiscal years, District officials have raised taxes to the tax cap limit.

5 This information is based on what the districts reported to New York State Education Department and OSC. See Appendix A for details.

than other schools, which indicates that it may need to obtain a higher percentage of its revenues from real property taxes (as compared to how much other schools need to rely on it). The District also has an Alternate Pupil Wealth Ratio Index⁶ that is higher than most of the other schools in the County.

Officials Have Taken Steps to Stabilize the District's Financial Condition

Beginning in the spring of 2018, the Superintendent and Treasurer have started to take steps to improve the District's declining financial condition. For example, they revised budgeting practices to ensure recurring revenues financed recurring expenditures. We reviewed the 2018-19 adopted budget and verified that officials did not appropriate unrestricted fund balance. Furthermore, District officials reduced staffing levels by nine employees with salaries totaling over \$530,000. They also began evaluating BOCES services to determine whether more of those services could be provided in-house by the District, or whether it would be more cost effective to contract with BOCES for more services. Officials have discussed developing a multiyear plan which would help ensure that funding will be available to sustain operations.

Furthermore, the Treasurer began assessing the school lunch fund operations. For example, he found that many à la carte meals were not profitable, and the number of meals prepared seemed unreasonable based on the volume of food disposed of. In addition, the Board increased lunch rates to be more in line with other schools in the County.

Without implementing additional cost savings measures or raising additional revenues, the District's fund balance may continue to deteriorate and could lead to less educational service offerings to students. While District officials' actions are prudent in trying to stabilize the District's financial condition, the Board should develop and use a formal multiyear plan to further improve the District's financial position.

⁶ This is the personal income component of the Combined Wealth Ratio used in State aid formulas. In standard economic theory, the greater the income behind each pupil, the greater the marginal ability to pay school taxes.

What Do We Recommend?

Because the District is now at the point where it has depleted its fund balance, the Board and District officials should:

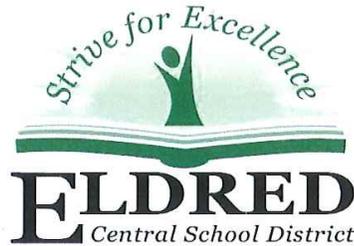
1. Take appropriate steps to restore and maintain the District's financial stability. These actions can include:
 - Adopting a multiyear financial plan;
 - Closely monitoring the level of unrestricted fund balance, once it has been restored; and
 - Reducing future reliance on fund balance as a financing source, while continuing to evaluate and explore ways to reduce expenditures and increase revenues.
2. Consider additional school lunch fund cost-savings measures and revenue enhancements so that the fund is less reliant on general fund subsidies and loans.

Appendix A: Comparisons to Other Districts in Sullivan County

Figure 2: Comparisons to Other Districts in Sullivan County

Districts	2016-17 Students per Teacher	2016-17 Expenditures per Student	2016-17 State Aid per Student	2017 Tax Rate	Alternate Pupil Wealth Ratio	2016-17 Tax Levy per Student
Eldred CSD	10.5	\$30,279	\$10,595	\$14.88	0.731	\$18,538
Fallsburg CSD	10.3	\$29,576	\$15,385	\$27.00	0.443	\$14,666
Liberty CSD	10.8	\$30,540	\$16,138	\$28.01	0.444	\$12,004
Livingston Manor CSD	8.5	\$39,307	\$16,207	\$16.67	0.533	\$19,749
Monticello CSD	10.7	\$28,743	\$11,986	\$18.64	0.519	\$15,163
Roscoe CSD	7.9	\$34,422	\$13,261	\$14.81	0.562	\$21,094
Sullivan West CSD	10.2	\$33,343	\$14,908	\$14.75	0.798	\$17,125
Tri-Valley CSD	9.8	\$31,476	\$10,112	\$18.55	0.517	\$20,559

Appendix B: Response From District Officials



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Dr. John C. Morgano, Superintendent of Schools

Binghamton Regional Office

Ann C. Singer, Chief Examiner

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Binghamton, New York 13901-4417

Dear Ann C. Singer,

Pursuant to your recommendations in the Draft report dated 2018, we concur with your findings. As you may be aware, we have already taken significant proactive action to rectify our fiscal situation.

For 2018-2019 (Year 1) we have reduced our expenses by eliminating 9 positions at a savings in salary and benefits of about \$850,000.00. This reduction in force was necessary as our district had enough staff for about 750 students and we have about 550. There was minimal impact on course offerings or program in general with regard to the reduction in force. We continue to review expenditures for necessity and look into alternative vendors to increase savings.

For 2019-2020 (Year 2) we plan to exceed the 2% cap and increase our revenue going forward by changing the tax base from that point forward. Currently our revenue is the same as it was in 2012. This is not acceptable if we are to be fiscally stable in three to four years.

For 2020-2021 (Year 3) we plan to replace a bond that will be paid off thus having a positive impact on our 2% cap and our being able to fund expenses such as a new roof for the elementary. We are also looking to fund a generator for the high school since power losses are increasing in frequency.

For 2021-2022 (Year 4) we will be looking at our demographics from the past several years and the accuracy of the demographic study we conducted in year one to see what our building needs are. Do we need two school buildings?

For 2022-2023 (Year 5) our fund balance should be at maximum and we should have established other reserves for expenses that may not be predicted. Also, the reductions made in year one have had 4 more years

To positively impact our fiscal situation. Additionally, the exceeding the cap in year 2 changed the base and will have a cumulative impact on our fiscal standing. We will continue to review our expenditures and fund balances and update our five year plan annually to adjust for the new circumstances affecting our district.

Item number 2 in the Draft findings asks for additional cost saving measures in our cafeteria and food service program. We have raised the prices of a standard lunch to match other schools in the county. We have raised the prices of al la carte menu items and will continue to review our prices going forward. We have changed vendors for bread products to increase profits and we are seeking to have full participation in the Free and Reduced Lunch Program by all those otherwise eligible. To increase participation in the food program we are analyzing sales numbers to determine which lunches sell and which do not and will adjust our menus accordingly. It is unlikely that the food service program will ever be self- sufficient but we are setting that as our goal.

Finally, I would like to, on behalf of the Board of Education, thank you for sending us highly qualified professionals to work with our school district. [REDACTED] is a true professional and a pleasure work with.

Respectfully Submitted,

John C. Morgano Ed.D.

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 and reviewed Board minutes and policies to gain an understanding of the procedures for monitoring fund balance and developing the annual budget.
- We reviewed the Board-adopted general fund budgets to determine whether they were realistic and structurally balanced by comparing the adopted budgets from 2014-15 through 2016-17 with actual results of operations.
- We analyzed changes in revenues, expenditures, results of operations and fund balance for 2014-15 through 2016-17 to document trends. We calculated unrestricted fund balance as a percentage of the subsequent year's budget to determine whether the District was within the statutory limit for those years.
- We reviewed the 2017-18 budget and used trend analysis to project results of operations as of June 30, 2018.
- We reviewed reserves and determined whether they were reasonably funded for 2014-15, 2015-16 and 2016-17.
- We documented the school lunch fund's interfund loan balance to determine whether it could be paid back.
- We reviewed our recommendations from the 2014 OSC audit to determine whether the District implemented those recommendations.
- We reviewed the District's real property tax levies for 2014-15 through 2016-17 to determine whether they were at or below the tax cap limit and whether the tax levies increased each year.
- We compared the District to all seven districts in the County for expenditure per student, student/teacher ratio, real property tax rates, State aid per student and Need Resource Combined Wealth Ratio to determine whether they were reasonable in comparison with the other districts.

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. 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 District Clerk's office.

Appendix D: 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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