



Hammondsport Central School District

Multiyear Planning

2024M-54 | August 2024

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Report Highlights

Hammondsport Central School District

Audit Objective

Determine whether Hammondsport Central School District (District) officials established comprehensive multiyear financial and capital plans.

Key Findings

District officials did not develop comprehensive written multiyear financial and capital plans, and their budgeting practice of consistently appropriating \$1.4 million in fund balance over these three fiscal years that is not needed to finance operations is, in effect, a reservation of fund balance that is not provided for by statute and a circumvention of the 4 percent statutory limit imposed on the level of surplus fund balance that may be maintained. As a result:

- District officials maintained surplus fund balance levels at more than three times the 4 percent allowed by New York State Real Property Tax Law Section 1318.
- Five reserves totaling \$2.3 million had balances in excess of the District's needs totaling \$1.4 million.

In addition, while District officials prepared an annual reserve and fund balance plan each January, the plan lacked key pieces of information required by the Board's reserve policy and best practices. Specifically, the annual reserve and fund balance plan did not include: the maximum funding goal or annual contributions for each reserve; gains or losses on the sale of investments or detail the total interest earned; permitted uses of excess reserve funds; or an analysis of the projected needs of reserve funds in the upcoming year(s).

Recommendations

The audit report includes four recommendations to help improve the District's multiyear planning.

Except as noted in Appendix A, the District generally agreed with our recommendations. Appendix B includes our comments on the District's response.

Audit Period

July 1, 2020 – April 22, 2024

Background

The District is located in the Towns of Bath, Pulteney, Urbana, Wayne and Wheeler in Steuben County and the Town of Tyrone in Schuyler County and is governed by a five-member Board of Education (Board). The Board is responsible for the oversight of the District's educational and financial affairs.

The Superintendent is the chief executive officer and, along with other administrative staff, is responsible for the day-to-day operations of the District and preparing the annual budget.

The District Treasurer (Treasurer) is responsible for overseeing the financial affairs of the District, including banking, purchasing, payroll and preparing various financial reports.

Quick Facts

2022-23 Appropriations	\$15.5 million
Reserve Balances as of June 30, 2023	\$5.5 million
Buildings and Facilities	2

Multiyear Planning

Why Is Multiyear Planning Important?

It is important for school district (district) officials to develop comprehensive written multiyear financial and capital plans to estimate the future costs of ongoing services and capital needs.

Multiyear financial planning enables district officials to:

- Identify revenue and expenditure trends,
- Establish long-term priorities and goals,
- Consider the impact of short-term budgeting decisions on future fiscal years, and
- Assess the merits of alternative approaches (such as using surplus funds or establishing, funding and using reserves) to finance operations.

Multiyear capital planning enables district officials to:

- Identify all capital and major equipment needs,
- Establish a maintenance cycle to sustain current assets, and
- Develop a process for prioritizing and financing capital projects and equipment purchases.

Effective multiyear plans project operating and capital needs and financing sources over a three-to five-year period. They also allow decision makers to set long-term priorities and work towards goals, rather than making choices based on the needs of the moment.¹

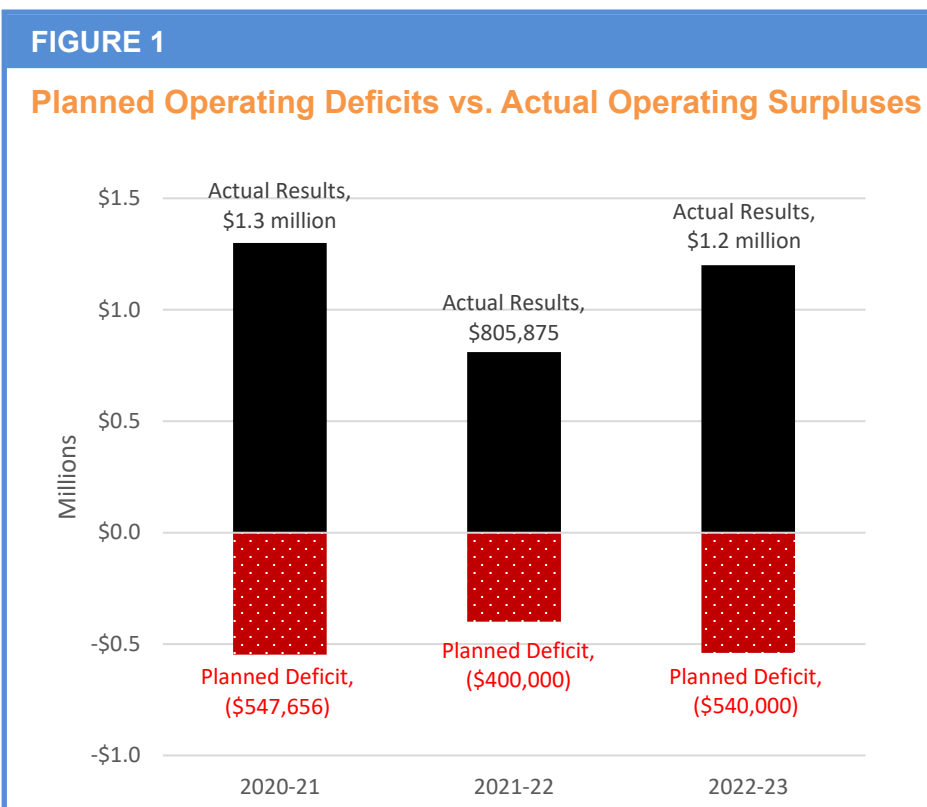
The Board's financial accountability policy requires a long-term (three to five years) financial plan for both capital projects and operating expenditures, while other Board-adopted policies, such as those related to the budget and reserves, provide additional guidance on their financial and capital goals. These plans should be monitored and updated on an on-going basis to help ensure that decisions are made using the most accurate information available. The plans help officials decide what funding choices to make in advance, while avoiding sudden tax increases or dramatic budget cuts and accumulating excessive fund balance.

¹ Refer to our multiyear financial planning resources available at <https://www.osc.state.ny.us/localgov/planbudget/index.htm>

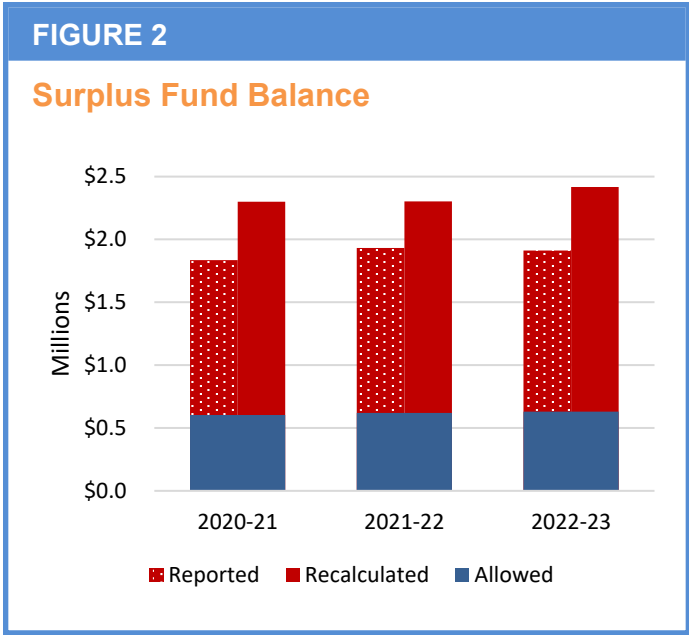
Officials Did Not Develop Comprehensive Written Multiyear Financial Plans

District officials did not develop comprehensive written multiyear financial and capital plans as required by the Board-adopted policy. Although District officials maintained certain historical financial data and capital inventory lists and replacement schedules and prepared an annual reserve and fund balance plan, they were not analyzed and used to project the District’s operating and capital needs in future years or develop multiyear plans.

The lack of these plans may have contributed to the Board adopting unrealistic budgets that contained planned operating deficits. However, the District realized operating surpluses totaling nearly \$3.3 million (Figure 1) that contributed to surplus fund balances totaling \$7 million, and although officials used \$5.2 million of the surpluses to fund reserves, officials maintained surplus fund balance levels at more than three times the 4 percent allowed by New York State Real Property Tax Law Section 1318² (Figure 2).



2 The law currently limits the amount of surplus fund balance that a school district can retain to no more than 4 percent of the budget. The school board must use any surplus fund balance over this percentage to reduce the upcoming real property tax levy or to fund needed reserves.



District officials’ budgeting practice of consistently appropriating \$1.4 million in fund balance over these three fiscal years that is not needed to finance operations is, in effect, a reservation of fund balance that is not provided for by statute and a circumvention of the 4 percent statutory limit imposed on the level of surplus fund balance. When adding back the unused appropriated fund balance, the recalculated surplus fund balance was more than three times the amount allowed by law.

District officials continued this practice with the appropriation of fund balance totaling \$425,000 in the 2023-24 budget.

Multiyear Financial Plan – The Superintendent stated that he overestimated appropriations by 8 percent each year to provide a financial cushion for unexpected expenditures and to fund reserves, which was not transparent to the Board and taxpayers. Furthermore, our comparison of budgeted appropriations to actual expenditures identified that they were overestimated between 11 and 16 percent (Figure 3).

Figure 3: Budgeted Appropriations vs. Actual Expenditures (millions)

	2020-21	2021-22	2022-23
Budgeted Appropriations^a	\$14.9	\$15.1	\$15.5
Actual Expenditures	\$12.8	\$13.6	\$13.6
Overestimated Appropriations	\$2.1	\$1.5	\$1.9
Percentage Overestimated^b	16%	11%	14%

^a Less unbudgeted transfers to the capital projects fund

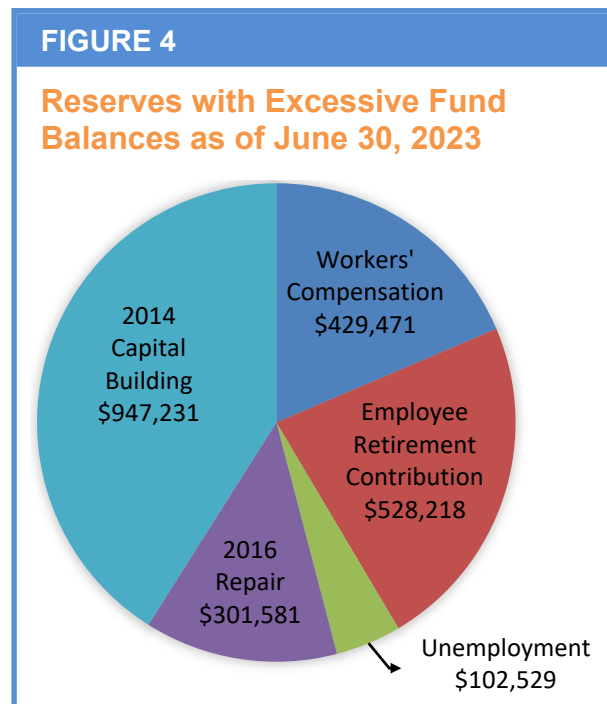
^b Overestimated appropriations divided by expenditures

As of March 12, 2024, the District expended \$7.8 million and District officials encumbered another \$5.5 million, which would result in the use of \$13.3 million of the \$15.8 million of budgeted appropriations for the 2023-24 fiscal year. Therefore, District officials overestimated appropriations by another \$2.5 million.

Although District officials prepared an annual reserve and fund balance plan each January to assist the Board in determining reserve funding, the plan lacked key pieces of information required by the Board’s reserve policy and best practices. Specifically, the annual reserve and fund balance plan did not detail the total interest earned for each reserve; indicate the maximum funding goal or annual contributions for each reserve; gains or losses on the sale of investments; permitted uses of excess reserve funds; or an analysis of the projected needs of reserve funds in the upcoming year(s). In addition, the report contains generic/ broad language of how the reserves will be funded, such as “through excess fund balance.”

During our review of the District’s annual reserve and fund balance plans over the last three years, we determined that the plans contained inaccurate balances because the Treasurer did not use the bank balances or include interest.³ Our analysis of the District’s 13 reserve balances totaling \$5.5 million per the June 30, 2023 bank statements indicated that five reserves totaling \$2.3 million had balances in excess of the District’s needs and the remaining eight reserves totaling \$3.2 million had reasonable balances based on historical trends of funding, associated expenditures and past use (Figure 4).

Specifically, the 2014 capital building reserve established by voter authorization with a \$3 million maximum funding amount and a 15-year term to fund the 2017 capital project was fully funded by 2021-22 and exceeded the maximum funding by \$28,354. After the completion of the 2017 project, this reserve’s unused balance totaled \$947,231 as of June 30, 2023, and there is no intended purpose per the District’s reserve plan.



³ See *Hammondsport CSD – Investment Program, 2024M-63*

The original authorization for the 2016 repair reserve set a maximum funding balance of \$300,000. However, District officials used and replenished this reserve multiple times since its inception, funding it to \$888,028. Therefore, the entire June 30, 2023 balance of \$301,581 is in excess of the amount authorized.

The three remaining reserves could fund multiple years of associated expenditures without any further contributions:

- Employees' retirement contribution reserve – The District's annual employee retirement contribution expenditure averaged \$140,800 over the audit period. The reserve had a balance of \$528,218 as of June 30, 2023 and could fund over three years of retirement contribution expenditures.
- Workers' compensation reserve – The reserve's balance of \$429,471 as of June 30, 2023 could fund eight years of the District's average annual workers' compensation expenditures during our audit period totaling \$52,958.
- Unemployment reserve – The reserve's balance as of June 30, 2023 totaling \$102,529 could fund more than 14 years of the District's average annual unemployment expenditures during our audit period totaling \$7,232.

The Superintendent and Treasurer stated that the Board tried to adopt a multiyear financial plan in the past, but it was not feasible because there were too many variables and they kept having to modify the plan. The Superintendent also explained that this budgeting practice was developed in place of adopting formal multiyear plans due to the volatility of expenditures that require the constant updating of multiyear plans, but ultimately put an unnecessary burden on District taxpayers. However, as previously shown in Figure 3, the District's expenditures were consistent over the last three years. Furthermore, multiyear plans, like budgets, are not static documents and should be periodically reviewed and updated as needed.

Multiyear Capital Plan – Various department managers, including those that oversee operations and maintenance, athletics and transportation, maintained asset inventory lists. Replacement schedules were also available for assets maintained by the operations and maintenance and transportation departments. While these inventory lists and replacement schedules were used during the budget process, they were not incorporated into a comprehensive written capital plan.

The Superintendent and Treasurer said they are reviewing the 2024 building condition survey (BCS) to develop an upcoming capital project to address the needs identified in the BCS. The Superintendent stated that the last capital project, based on the 2015 BCS, was approved in 2017 and completed in 2021, and he would like to offer the next capital project with no real property tax impact

by funding and using a capital reserve. However, BCSs are not substitutes for multiyear capital plans.

Our review of the 2017 capital project and 2020-21 through 2023-24 capital outlay projects identified that District officials addressed 28 of the 98 items listed in the 2015 BCS during the nine years between BCSs. Had District officials developed a multiyear capital plan, other items identified in the 2015 BCS could have been addressed while awaiting the 2024 BCS that was delayed.

Although the transportation and athletic department managers maintained equipment replacement schedules, they were not used to develop a multiyear capital plan that prioritized all future equipment purchases while addressing the related financing and budgetary impacts.

For example, District officials did not develop a plan to meet the mandates requiring zero emission bus purchases by July 1, 2027 and operation by July 1, 2035. Instead, the Superintendent and Treasurer stated that they intend to purchase as many diesel buses as they can afford and hope that the State changes the mandate before 2035.

Without well-designed, comprehensive written multiyear financial and capital plans that include specific estimates for revenues and expenditures based on actual historical trends, reasonable reserve and fund balances and long-term capital needs based on accurate capital asset inventories and replacement schedules, the Board's ability to effectively manage the District's finances was hindered. Not utilizing multiyear financial plans also created an environment that lacked transparency and overburdened District taxpayers.

What Do We Recommend?

The Board and District officials should:

1. Develop and adopt written multiyear financial and capital plans for a three- to five-year period that include specific estimates for revenues and expenditures based on actual historical trends, reasonable reserve and fund balances and long-term capital needs based on accurate capital asset inventories and replacement schedules.
2. Develop and adopt budgets that include realistic appropriation estimates, and which appropriate a reasonable and necessary amount of fund balance.
3. Ensure the District complies with statute and use any surplus fund balance in excess of the statutory limit as a financing source for funding one-time expenditures, needed reserves, paying down any debt and reducing real property taxes.

-
4. Adopt a written reserve fund plan that addresses the accumulation, use and maintenance of reserve funds and analyze existing reserve levels. If necessary, make statutorily allowed transfers between reserve funds to best align funds with long-term needs and/or use the funds to reduce the tax levy in accordance with applicable statutes.

Appendix A: Response From District Officials

HAMMONDSPORT

Central School District

8272 Main Street Hammondsport, New York 14840

Kyle C. Bower, Superintendent

Tad R. Rounds, Secondary Principal

Laine Gillette, Elementary Principal

Kelley Meade, Dir. of Curriculum/ Dir. of Spec. Ed.

Phone: 607.569.5200

Fax: 607.569.5212

August 15, 2024

Stephanie Howes, Chief Municipal Audits
Office of the State Comptroller
Rochester Regional Office
The Powers Building
16 W Main Street, Suite 522
Rochester, NY 14614-1608

Dear Mrs. Howes,

This letter is in response to the Draft Report of Examination: Multiyear Planning for the audited period of July 1, 2020-April 22, 2024 and Investment Program for the audit period of July 1, 2022 – May 15, 2024. We had our exit interview on August 2, 2024.

The following will be serving as the response letter to address both examination topics.

See
Note 1
Page 12

Examination One- Multiyear Planning

- 1. Develop and adopt written multiyear financial and capital plans for a three- to five-year period that include specific estimates for revenues and expenditures based on actual historical trends, reasonable reserve and fund balances and long-term capital needs based on accurate capital asset inventories and replacement schedules.**
 - a. Although the District does regularly review past and projected trend data to estimate multi-year expenditures and revenues, due to the volatility and unpredictability of state aid, the District does not have a three to five year written financial and capital plan. The district will pursue available resources to develop a multiyear financial and capital plan for reserve, fund balance and long-term capital asset inventories and replacement schedules.
- 2. Develop and adopt budgets that include realistic appropriation estimates, and which appropriate a reasonable and necessary amount of fund balance.**
 - a. The District strategically builds its budget based upon review of actual historical expenditures and trends, projected expenditures such as salaries, benefits, replacement or repair to equipment or infrastructure as prioritized and openly discusses this with our Board of Education during the budget development cycle.

See
Note 2
Page 12

See
Note 3
Page 12

BOARD OF EDUCATION

Kevin Bennett, *President*

Corey Kennedy

Lynda Lowin

Carre Doyle, *Vice President*

William Goodrich

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3. Ensure the District complies with statute and use any surplus fund balance in excess of the statutory limit as a financing source for funding one-time expenditures, needed reserves, paying down any debt and reducing real property taxes.

- a. The District Office strategizes, in conjunction with the Board of Education, purposeful fund balance development above the statutory 4% for several purposes: one- time expenditures, funding reserves to provide for planned future expenditures and maintain operations/program in an environment wherein state aid funding is often volatile, inconsistent or known too late in the statutory budget process.

See
Note 4
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4. Adopt a written reserve fund plan that addresses the accumulation, use and maintenance of reserve funds and analyze existing reserve levels. If necessary, make statutorily allowed transfers between reserve funds to best align funds with long-term needs and/or use the funds to reduce the tax levy in accordance with applicable statutes.

- a. The District currently has a written reserve plan that addresses accumulation, use and maintenance of reserve funds and tracks reserve levels. The District does not however include the interest earned on each reserve in the reserve plan on a monthly basis. The District does present the total amount of each reserve fund to the Board of Education each month through the Treasurer's report which does include accumulated interest.

See
Note 5
Page 12

Examination Two: Investment Program

The Board and District Officials should:

1. Develop and manage a comprehensive investment program which includes written procedures for the investment program's operation in compliance with the Board's investment policy.

- a. The District does have an investment policy in place, but as the comptroller report mentions, does not have a formal written program in place. The District will work to develop a comprehensive investment program that will detail investment options, cash flow, and duration of investments and share with the Board regularly.

2. Consider all four objectives of a comprehensive investment program – legality, safety, liquidity and yield – when investing available funds. This includes monitoring investments and periodically soliciting interest rate quotes and obtaining investment information from multiple financial institutions to ensure funds are invested to benefit District operations.

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- a. Due to Business Office capacity, we have not been able to monitor investments to the level the comptroller would like to see for public entities. The District believes that it does due diligence when investing by seeking the largest rate of return from competitive banks and negotiating those rates and liquidity in short and long term CD's with a bank in our local community. Although the District is still concerned about the logistical management of daily monitoring and movement of funds due to human capacity in the office, the Board of Education has approved an investment vehicle with [REDACTED] for purposes of investing its tax revenue. The Business Office will work with our local BOCES for assistance with wiring of funds from our local bank to [REDACTED] and back for operations, in an effort to capture the largest return. We will continue to work with our local banks, who have been willing to match the best interest rates, and lock up funds through higher rate CD's if we believe daily interest rates will decrease over the long term.

The Treasurer should:

3. Include cash flow forecasts in the cash flow statements.

- a. As reviewed, the Treasurer does a detailed yearly cash flow. We will work to expand this process to include multi-year forecasting of revenue and expenditures to the extent that information is reliably known.

The Board should:

4. Annually review, make any necessary changes, and re-adopt its investment policy as required.

- a. The Board does review and adopt the investment policy at the yearly re-organization meeting and will continue to do so as required.

See
Note 6
Page 12

We appreciate your recommendations and will work towards them accordingly. If there are any questions or concerns with this response, please contact me at (607)569-5200 ext 5240.

Sincerely,

Kylé C. Bower
Superintendent of Schools

BOARD OF EDUCATION

Kevin Bennett, *President*
Corey Kennedy

Lynda Lowin

Carre Doyle, *Vice President*
William Goodrich

Appendix B: OSC Comments on the District's Response

Note 1

Officials provided a singular response for two audit reports (2024M-54 - *Multiyear Planning* and 2024M-63 - *Investment Program*).

Note 2

The District's projected State aid in the State's enacted budget has consistently increased since 2020-21.

Note 3

District officials did not use actual expenditures to estimate appropriations or include provisions to fund reserves. By overestimating appropriations, the District realized operating surpluses totaling \$3.3 million from 2020-21 through 2022-23, instead of planned operating deficits.

Note 4

Regardless of District officials' rationale, Real Property Tax Law Section 1318 limits the amount of surplus fund balance the District can retain to no more than 4 percent of the budget.

Note 5

The District's reserve policy (Board Policy 5511 Reserve Funds) states that the District will prepare and submit an annual report of all reserve funds to the Board, which must include the interest earned by the reserve funds.

Note 6

While the Board adopted the District's investment policy at the July 10, 2024 re-organizational meeting, the Board's last documented review of the policy was December 19, 2018.

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. We obtained an understanding of internal controls that we deemed significant within the context of the audit objective and assessed those controls. Information related to the scope of our work on internal controls, as well as the work performed in our audit procedures to achieve the audit objective and obtain valid audit evidence, included the following:

- We interviewed District officials to gain an understanding of the District's financial operations, including the budget process, how capital projects are prioritized, reserve funds and multiyear planning.
- We reviewed Board meeting minutes and policies related to reserve funds, budgeting and long-term planning.
- We reviewed the District's annual reserve and fund balance plans for the 2020-21 through 2022-23 fiscal years to assess whether the plans were accurate and adequate.
- We reviewed the District's reserve funds to determine whether the balances were reasonable and necessary based on historical trends of funding, associated expenditures and past use.
- We reviewed the general fund's results of operations for the period July 1, 2020 through March 12, 2024 to gain perspective on the District's financial condition. We analyzed the fiscal year-end fund balance for the general fund and calculated surplus fund balance as a percent of the next year's appropriations to determine whether the District was in compliance with statute. We recalculated surplus fund balance by adding back the unused appropriated fund balance and compared the amount as a percentage of the next year's appropriations.
- We reviewed the District's previous BCS of the main building and bus garage for components identified by the District architect that required repair or replacement and compared them to the District's 2017 capital project and capital outlay and maintenance projects for 2020-21 through 2023-24 to determine which were addressed and those that were outstanding that could have been used to develop future capital plans.
- We reviewed asset inventory lists and replacement schedules maintained by department heads and the Treasurer for adequacy.

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.

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 on the District's website for public review.

Appendix D: Resources and Services

Regional Office Directory

www.osc.ny.gov/files/local-government/pdf/regional-directory.pdf

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

www.osc.ny.gov/local-government/publications

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

www.osc.ny.gov/local-government/fiscal-monitoring

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

www.osc.ny.gov/local-government/publications

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

www.osc.ny.gov/local-government/resources/planning-resources

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

www.osc.ny.gov/files/local-government/publications/pdf/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.ny.gov/local-government/required-reporting

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

www.osc.ny.gov/local-government/publications

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

www.osc.ny.gov/local-government/academy

Contact

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

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