



Fort Edward Union Free School District Financial Condition

Report of Examination

Period Covered:

July 1, 2012 — February 28, 2015

2015M-67



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2015

Dear District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts 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 district's 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 district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Fort Edward Union Free 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 New York State General Municipal Law.

This audit's results and recommendation 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 Fort Edward Union Free School District (District) is located in the Village of Fort Edward in Washington County. The Board of Education (Board) is the legislative body responsible for managing District operations, including establishing internal controls over financial operations and maintaining sound financial condition. The Board President is the District's chief financial officer. The Superintendent of Schools is the District's chief executive officer and is responsible for the District's day-to-day management and for development and administration of the budget. Although the Board is primarily responsible for the effectiveness and proper functioning of internal controls, the Superintendent and department heads share this responsibility.

As of February 28, 2015, the District had approximately 100 employees and 560 students. The District's budgeted appropriations for the 2014-15 fiscal year were approximately \$10.7 million, which were funded primarily with real property taxes and State aid.

Fiscal stress is a judgment about the financial condition of an individual entity that must take into consideration the entity's unique circumstances, but can be generally defined as a school district's inability to generate enough revenues within a fiscal year to meet its expenditures. The Office of the State Comptroller's Fiscal Stress Monitoring System evaluates school districts based on financial and environmental indicators to determine if these entities are in or nearing fiscal stress. The District has been classified as being in moderate fiscal stress.

Objective

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

- Does the Board adopt realistic budgets that are structurally balanced?

Scope and Methodology

We examined the District's financial condition for the period July 1, 2012 through February 28, 2015.

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 B of this report.

Comments of District Officials and Corrective Action

The results of our audit and recommendation have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials

generally agreed with our recommendations and have initiated, or indicated they planned to initiate corrective action.

Pursuant to Section 35 of General Municipal Law, Section 2116-a (3) (c) of the New York State 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. We encourage the Board to make this plan available for public review in the District Clerk's office.

Financial Condition

Financial condition may be defined as a school district's ability to balance recurring expenditure needs with recurring revenue sources, while providing desired services on a continuing basis. A district in good financial condition generally maintains adequate service levels during fiscal downturns and develops resources to meet future needs. Conversely, a district in fiscal stress usually struggles to balance its budget, suffers through disruptive service level declines, has limited resources to finance future needs and has minimal cash available to pay current liabilities as they become due. District officials have a responsibility to taxpayers to ensure that their tax burden is not greater than necessary. To fulfill this responsibility, it is essential that District officials develop reasonable, structurally balanced¹ budgets and manage fund balance responsibly.

The Board is responsible for preparing and adopting reasonable budgets based on historical or known trends for appropriations and revenues. In preparing the budget, the Board is responsible for establishing appropriations at a level sufficient to finance planned services, estimating District revenues and other financing sources, determining whether the District will have unexpended surplus funds to help fund the ensuing year's operations and establishing the tax levy. Finally, District officials should develop detailed multiyear plans to allow them to set long-term priorities and work toward goals, rather than making choices based only on the needs and politics of the moment.

Although the Board adopted reasonable budgets that included realistic estimates based on historical or known trends, the District relied on the appropriation of fund balance to finance recurring expenditures and, as a result, the budgets were not structurally balanced. As of June 30, 2014, the District reported an unrestricted fund balance that totaled \$35,463 or .33 percent of the ensuing year's budgeted appropriations. Furthermore, the general fund operating cash balance decreased by over \$2.5 million because of a financial statement reclassification of cash to restricted cash to agree with the District's reserve fund balances. The continued use of fund balance has resulted in its depletion. However, the Board and District officials have developed a multiyear financial plan to address current and long-term financial trends at the District.

¹ A structurally balanced budget balances recurring revenues and recurring expenditures.

Budgeting

It is essential that the Board adopt structurally balanced budgets based on historical or known trends, in which recurring revenues finance recurring expenditures and reasonable levels of fund balance are maintained. An appropriation of fund balance is the use of unexpended resources from prior years to finance budget appropriations and is considered a “one shot” financing source, but it is an acceptable and reasonable practice when a district has accumulated an adequate level of unrestricted fund balance. However, when a district has recurring annual operating deficits, fund balance will be depleted and ultimately will go into a deficit position.

The Board adopted budgets for the 2012-13, 2013-14 and 2014-15 fiscal years that included realistic estimates based on historical or known trends. However, the budgets were not structurally balanced (meaning that recurring expenditures were not funded with recurring revenues) because the Board appropriated fund balance to fund operations, which, in effect, meant it was planning for operating deficits each year.

Because the District realized operating surpluses for two of the three years and had a minimal operating deficit in the other year, it did not use the amounts of fund balance it had appropriated. However, during 2013-14, District officials decided to increase the reserve for tax certiorari by \$350,000, leaving the District’s unrestricted fund balance in a vulnerable position as of June 30, 2014.

Our testing included a comparison of the District’s budgeted general fund revenues and expenditures with actual results of operations for fiscal years 2012-13, 2013-14 and 2014-15 through February 28, 2015. We found that the District generally realized positive variances and results of operations over the three-year period.

Figure 1: Results of Operations			
	Budget	Actual	Variance
2012-13 Revenues ^a	\$9,757,255	\$9,631,975	(\$125,280)
2012-13 Expenditures	\$10,312,655	\$9,367,435	\$945,220
Operating Surplus		\$264,540	
2013-14 Revenues ^a	\$9,994,825	\$9,824,989	(\$169,836)
2013-14 Expenditures	\$10,407,825	\$9,844,357	\$563,468
Operating (Deficit)		(\$19,368)	
2014-15 ^b Revenues ^a	\$10,154,147	\$10,140,937	(\$13,210)
2014-15 ^b Expenditures	\$10,714,147	\$10,125,987	\$588,160
Operating Surplus		\$14,950	
<small>a Budgeted revenues do not include appropriated fund balance. b 2014-15 revenue and expenditure projections are preliminary estimates obtained during fieldwork.</small>			

We also reviewed the District’s 2014-15 budget and year-end fund balance projections and found that estimates were reasonable and supported. District officials are planning to transfer \$131,000 from reserved fund balance to finance a portion of 2014-15 expenditures. The projected operating surplus for the 2014-15 year and the use of reserve funds has created a projected year-end unrestricted fund balance of \$200,953 which is 1.84 percent of the 2015-16 budgeted appropriations.

Figure 2: General Fund Balance			
	2012-13	2013-14	2014-15^a
Total Beginning Fund Balance	\$3,013,149	\$3,277,689	\$3,258,321
Add/(Less): Operating Surplus/(Deficit)	\$264,540	(\$19,368)	\$14,950
Total Ending Fund Balance	\$3,277,689	\$3,258,321	\$3,273,271
Less: Reserved and Assigned Fund Balance	\$2,351,428	\$2,662,858	\$2,532,318
Less: Fund Balance Appropriated for Subsequent Year’s Operations	\$413,000	\$560,000	\$540,000
Unrestricted Fund Balance at Year-End	\$513,261	\$35,463	\$200,953
Subsequent Year’s Budgeted Appropriations	\$10,407,825	\$10,714,147	\$10,898,599
Unrestricted Fund Balance as a Percentage of Subsequent Year’s Budgeted Appropriations	4.93%	0.33%	1.84%

^a The 2014-15 operating surplus, amount of fund balance to be appropriated in subsequent year and the subsequent year’s budgeted appropriations are projections provided by the District.

Furthermore, during 2013-14, the District reclassified \$2,662,317 of cash to restricted cash to properly account for cash associated with reserve fund balances. As a result, unreserved cash reported by the District decreased from \$2,618,408 in 2013-14 to \$184,383 in 2013-14 and reserved cash increased from \$0 to \$2,662,317.

We also reviewed the District’s 2015-16 tentative budget, which includes an appropriation of \$540,000 of fund balance to help finance 2015-16 operations. Based on the information provided by the District, we found that its significant revenue and appropriation estimates appear to be reasonable and supported. District officials project that approximately \$740,000 in fund balance may be available at the end of 2014-15. District officials must be aware that continued use of fund balance will eventually lead to its depletion and ultimately expenditures will need to be reduced or new revenue sources will need to be identified to fund operating expenditures.

Multiyear Planning

Multiyear financial planning is a tool that school districts can use to improve the budget development process. Planning on a multiyear basis enables District officials to identify developing revenue and expenditure trends, establish long-term priorities and goals and consider the impact of current budgeting decisions on future fiscal years. It also allows District officials to assess the merits of alternative approaches (such as using unrestricted fund balance or establishing and using reserves) to finance its operations. Any long-term financial

plan should be monitored and updated on a continuing basis to provide a reliable framework for preparing budgets and to ensure that information used to guide decisions is current and accurate.

The Board and District officials have developed a multiyear financial plan to address current and long-term financial trends, including the use of restricted and unrestricted fund balance through the 2019-20 fiscal year. This comprehensive financial plan includes revenue and appropriation projections and their planned impact on the District's fund balance. District officials should continue to update this plan and use it when developing future budgets.

Recommendation

1. District officials should monitor the District's use of fund balance to ensure that action is taken, if necessary, to identify other funding sources that can be used to fund operations.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

FORT EDWARD UNION FREE SCHOOL DISTRICT

220 BROADWAY
FORT EDWARD, NEW YORK 12828
(518) 747-4529

Jeffery Ziegler
Superintendent of Schools
K-6 Principal

Thomas McGurl
7-12 Principal

April 15, 2015

Office Of The State Comptroller
Division Of Local Government and School Accountability
Glens Falls Regional Office
One Broad Street Plaza
Glens Falls, New York 12801-4396

Attn: Jeffrey P. Leonard, Chief Examiner

Unit Name: **FORT EDWARD UNION FREE SCHOOL DISTRICT**
Audit Report Title: **FINANCIAL CONDITION**
Audit Report Number: **2015M-67**

Dear Mr. Leonard:

First, this audit response is also serving as our corrective action plan. The District is in agreement with the report and its findings. Since the time of the audit, the District's tentative budget will include a decrease of fund balance to help finance the 2015-16 budget from \$540,000 to \$381,000.

For the recommendation included in the audit report, the following is our corrective action taken or proposed.

Audit Recommendation:

District officials should monitor the District's use of fund balance to ensure that action is taken, if necessary, to identify other funding sources that can be used to fund operations.

Implementation Plan of Action:

District officials will monitor the District's use of fund balance to ensure that action is taken to identify all funding sources that can be used to fund operations. The District plans to transfer \$91,000 from reserve funds to fund a portion of the 2014-15 expenditures which will result in a minimum \$310,000 projected year-end unrestricted fund balance or approximately 2.8% of the 2015-16 budgeted appropriations.

FORT EDWARD UNION FREE SCHOOL DISTRICT

220 BROADWAY
FORT EDWARD, NEW YORK 12828
(518) 747-4529

Jeffery Ziegler
Superintendent of Schools
K-6 Principal

Thomas McGurl
7-12 Principal

Implementation Date:

The planned implementation date for the transfer is scheduled for early May 2015.

Person Responsible for Implementation:

Jeffery Ziegler, Superintendent

If you have any questions or concerns related to our District's Corrective Action Plan, please do not hesitate to contact my office at 518/747-4529 x3100.

Sincerely,

Jeffery Ziegler
Superintendent of Schools

4-15-15

Date

Cc: Dan Boucher, BOE President
Board of Education
Troy Tyler, District Treasurer

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The Office of the State Comptroller's Fiscal Stress Monitoring System evaluates local governments based on financial and environmental indicators. These indicators are calculated using the local government's annual update document and information from the United States Census Bureau, New York State Department of Labor and the New York State Education Department, among other sources. The District has demonstrated signs of fiscal stress in several areas.

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 compared the adopted budgets for the general fund for fiscal years 2012-13 and 2013-14 with the actual results of operations and the 2014-15 budget with results through February 28, 2015 to determine if the budgets were realistic and structurally balanced.
- We interviewed District officials to determine a projected amount of the revenues and expenditures as of June 30, 2015.
- We reviewed the 2015-16 preliminary budget available during fieldwork to determine if the revenue and appropriation estimates were reasonable and the budget was structurally balanced.
- We reviewed the District's multiyear financial plan effective through the 2019-20 fiscal year.

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 C

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