



Glens Falls Common School District Financial Condition

Report of Examination

Period Covered:

July 1, 2012 — February 28, 2015

2015M-66



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	3
Comments of District Officials and Corrective Action	3
FISCAL STRESS	4
Financial Condition	4
Multiyear Financial Planning	8
Recommendations	8
APPENDIX A Response From District Officials	10
APPENDIX B Audit Methodology and Standards	12
APPENDIX C How to Obtain Additional Copies of the Report	13
APPENDIX D Local Regional Office Listing	14

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2015

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage government 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 Glens Falls Common 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 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 Glens Falls Common School District (District) is located in the City of Glens Falls in Warren County. The District is governed by a Board of Education (Board) which comprises three members. The Board is responsible for managing operations and ensuring that the District maintains a sound financial condition, which includes establishing internal controls over financial operations. The Board's President is the District's chief financial officer. The District Superintendent serves as the chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. The District Treasurer is responsible for maintaining all accounting records, processing payroll and providing the Board with supplemental financial reports and projections during the budget process.

As of February 2015, the District operated one school building, employed 35 individuals and provided education to 182 students from kindergarten through grade six. The District also paid tuition for 114 students in grades seven through 12 to attend neighboring school districts. The District's budgeted appropriations for the 2014-15 fiscal year were approximately \$4.3 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 its current fiscal period to meet its expenditures (budget solvency). The Office of the State Comptroller's Fiscal Stress Monitoring System evaluates school districts based on financial and environmental indicators and calculates a score for each financial indicator to determine if these entities are in or are nearing fiscal stress. These indicators are calculated using the District's annual financial reports 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 been classified as being in moderate fiscal stress as of June 30, 2014.

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 reasonable, structurally balanced budgets and take action to maintain the District's fiscal stability?

**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 are included in Appendix B 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. District officials generally agreed with our recommendations and 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.

Fiscal Stress

Financial condition may be defined as a district's ability to balance recurring expenditure needs with recurring revenue sources while providing desired services on a continuing basis. A school district in good financial condition generally maintains adequate service levels during fiscal downturns and develops resources to meet future needs. Conversely, a school 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. It is essential that District officials develop reasonable, structurally balanced¹ budgets and manage fund balance responsibly. Finally, District officials should develop detailed multiyear plans to allow them to set long-term priorities and work toward goals.

Although the Board generally adopted reasonable budgets, they were not structurally balanced because the Board consistently appropriated fund balance to finance recurring expenditures. The Board's continuing use of fund balance, combined with significant unanticipated expenditures, caused the District's financial condition to decline. As of June 30, 2014, the general fund's unrestricted fund balance totaled \$6,036, which was less than 1 percent of the ensuing year's budgeted appropriations. Furthermore, the District's general fund operating cash balance decreased by approximately \$370,000 in one year. As a result, the District had to issue a tax anticipation note (TAN) to meet cash flow needs during the 2014-15 fiscal year. In response to the District's fiscal stress, the Board was compelled to implement various cost-saving and revenue enhancement strategies. However, the Board did not develop a multiyear financial plan to address the District's short- and long-term fiscal stability.

Financial Condition

It is essential that the Board adopt structurally balanced budgets 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" or a nonrecurring 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. Maintaining a reasonable level of unrestricted fund balance is an essential component of financial

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

management. If the amount retained is too low, the District may not have a sufficient financial cushion for unanticipated costs. It is important for the Board to adopt a fund balance policy that addresses the appropriate level of unrestricted fund balance it desires to be maintained from year-to-year to provide guidelines for the Board during the budget process.

The Board did not adopt structurally balanced budgets that funded recurring expenditures with recurring revenues for the general fund for 2012-13, 2013-14 or 2014-15. In each of the three fiscal years, the Board appropriated large amounts of fund balance to fund the District's operations, which created planned operating deficits each year.

In the 2012-13 fiscal year, the Board budgeted for a planned operating deficit by appropriating \$211,753 of fund balance. This \$211,753 appropriation was 37 percent of the fund balance that was available at the end of the previous 2011-12 fiscal year. During the 2012-13 fiscal year, the District's actual revenues were \$11,085 less than the Board had estimated, and its actual expenditures were \$314,856 less than budgeted estimates. This caused the District to have an operating surplus of \$92,018. The District expended less than planned primarily because it identified students who were no longer District residents, which reduced its tuition expenditures for that year.²

Similarly in the 2013-14 budget, the Board again budgeted for a planned operating deficit by appropriating \$309,453 of fund balance. This \$309,453 appropriation was 66 percent of the fund balance that was available at the end of the 2012-13 fiscal year. However, during the 2013-14 fiscal year, the District experienced an unforeseen increase in enrollment that caused expenditures related to programs for students with disabilities to increase by \$366,683. As a result, the District had an operating deficit of \$338,550, which was \$29,097 more than the Board had planned for.

To address the substantial increase in costs for these programs, District officials investigated possible revenue enhancements and implemented cost-savings opportunities. For example, the District reviewed all Medicaid claims and identified reimbursements owed to the District. It also reviewed its tuition bills and identified overbillings. These cost-savings measures increased the District's revenues by \$105,598 and lowered its expenditures for other programs by \$231,988. As a result, the District's total expenditures for the 2013-14 fiscal year exceeded budgeted amounts by \$134,695.

² The Board's original appropriation for tuition was reasonable based on estimates provided by the Glens Falls City School District.

Figure 1: Budget Variances						
	Fiscal Year 2012-13			Fiscal Year 2013-14		
	Budget	Actual	Variance	Budget	Actual	Variance
Revenues	\$3,575,020	\$3,563,935	(\$11,085)	\$3,645,434	\$3,751,032	\$105,598
Expenditures	\$3,786,773	\$3,471,917	\$314,856	\$3,954,887	\$4,089,582	(\$134,695)
Operating Surplus/(Deficit)	(\$211,753)	\$92,018	\$303,771	(\$309,453)	(\$338,550)	(\$29,097)
Use (Increase) of Unrestricted Fund Balance	\$211,753	(\$92,018)	\$303,771	\$309,453	\$338,550	(\$29,097)

The \$246,532 cumulative operating deficit from the 2012-13 and 2013-14 fiscal years caused the District's total fund balance to decline from \$605,204 as of July 1, 2012 to \$358,667 as of June 30, 2014. The amount of reserved fund balance as of June 30, 2014 was \$197,771, which left the District with \$160,896 of unrestricted fund balance. In addition, the Board appropriated \$154,860 of this amount in the 2014-15 budget to finance operations, leaving the District with \$6,036 of unrestricted fund balance as of June 30, 2014.

Figure 2: Fund Balance		
	2012-13	2013-14
Adjusted Total Beginning Fund Balance ^a	\$605,204	\$697,217
Plus (Less): Annual Operating Surplus (Deficit)	\$92,018	(\$338,550)
Total Ending Fund Balance	\$697,221	\$358,667
Less: Reserved Fund Balance	\$226,870	\$197,771
Less: Assigned Unappropriated Fund Balance	\$2,703	\$0
Less: Fund Balance Appropriated for Subsequent Year's Operations	\$309,453	\$154,860
Unrestricted Fund Balance at Year End	\$158,195	\$6,036

^a This includes a prior period adjustment to decrease fund balance

The District did not have a fund balance policy to indicate what would be an adequate level of unrestricted fund balance for the Board to maintain during its budget development process. Therefore, besides statutory limitations,³ the Board had no guidelines to follow when determining how much fund balance to appropriate.

District officials told us that the Board appropriated fund balance at the levels it did to ensure that the tax levy remained within the District's allowable tax levy limit. However, in the 2012-13 and 2013-14 budgets, the Board appropriated fund balance to such an extent that the District's unrestricted fund balance was lowered to unreasonable

³ New York State Real Property Tax Law limits the amount of unrestricted fund balance that can be legally retained by District officials to 4 percent of the ensuing year's budget.

amounts. Furthermore, despite the District's fiscal decline and low amount of fund balance as of June 30, 2014, the Board appropriated \$154,860 of fund balance in its 2014-15 budget, causing the District's unrestricted fund balance to decrease to \$6,036, which was less than 1 percent of the 2014-15 budgeted appropriations.

The Board's failure to adopt a fund balance policy and over-reliance on appropriating fund balance, along with the unanticipated expenditures, caused the general fund to become fiscally stressed.

Short-Term Borrowing – Due to the operating deficit that the District experienced in 2013-14, the general fund's operating cash was depleted. The District's cash decreased by \$369,245 (from \$953,928 as of July 1, 2013 to \$584,683 as of June 30, 2014), which required the District to issue a TAN⁴ to meet 2014-15 cash flow needs. On August 18, 2014, the District issued a \$170,000 TAN and incurred costs of approximately \$2,000 in interest and fees. On December 1, 2014, after the District collected its real property taxes, it repaid the TAN.

2014-15 Adopted Budget – The District's 2014-15 adopted budget contains appropriations totaling \$4.3 million, which is approximately \$300,000 more than the 2013-14 adopted budget. This increase is primarily related to an anticipated increase in expenditures for programs for students with disabilities. As it did in its two previous budgets, the District budgeted for a planned operating deficit by appropriating a significant amount of fund balance (\$154,860) to finance operations. This \$154,860 appropriation was 96 percent of the available fund balance. This appropriation amount was excessive because it left the District with only \$6,036 of unrestricted fund balance to provide for cash flow and unanticipated expenditures.

Although the Board planned for an operating deficit, District officials projected⁵ that the District will end the year with an operating surplus of approximately \$65,000 because it anticipates that the District will receive approximately \$56,000 more in State and federal aid for this fiscal year. Also, the Board projected that the District will expend approximately \$164,000 less than budgeted because District officials continued to identify cost-savings opportunities. Specifically, the District decreased expenditures by contracting for its transportation service, reviewing service contracts to identify cost-saving opportunities and filling positions of retired employees at a lower cost. Additionally, according to the Treasurer, enrollment decreased during the year, which resulted in a decrease in tuition-related expenditures.

⁴ An obligation issued in anticipation of the collection of future real property taxes and assessments

⁵ As of February 2015

We reviewed the District's 2014-15 adopted budget and year-end fund balance projections to determine whether estimates were reasonable and supported. Based on information provided by the District, we found that its significant revenue estimates and appropriations appeared reasonable. If the \$65,000 projected operating surplus is realized, it will improve the District's financial position. However, District officials must closely monitor the District's results of operations and make appropriate adjustments if necessary.

Multiyear Financial Planning

Multiyear financial planning is a tool that school districts can use to improve the budget development process. Planning on a multiyear basis will enable District officials to identify developing revenue and expenditure trends, establish long-term priorities and goals, and consider the impact that current budgeting decisions will have 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 did not develop a multiyear financial plan to address the use of restricted and unrestricted fund balance. Had District officials used multiyear financial planning, they would have understood that appropriating significant amounts of fund balance over a three-year period would have a negative impact on the District's financial position. Furthermore, the Board's failure to develop a financial plan to mitigate the District's fiscal stress inhibits the District's ability to effectively manage its finances.

Recommendations

The Board should:

1. Develop and adopt budgets that are structurally balanced and appropriate fund balance only in amounts that are necessary and reasonable.
2. Closely monitor the District's use of unrestricted fund balance and, if necessary, identify other funding sources that can be used if these moneys are no longer available to fund operations.
3. Develop and adopt a fund balance policy that establishes an adequate amount of unrestricted fund balance to be maintained, within the legal limit, to meet the District's needs, provide sufficient cash flow and avoid relying on short-term debt borrowing.

4. Develop a comprehensive multiyear 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 page.



GLENS FALLS COMMON SCHOOL DISTRICT

ABRAHAM WING SCHOOL

120 Lawrence Street
Glens Falls, New York 12801

ADMINISTRATIVE OFFICES

John Godfrey, *Superintendent*
(518) 792-3231

Carisa Vogel, *Secretary*
(518) 792-3231

BUSINESS OFFICE

Judy Hemingway
(518) 793-1950

FAX

(518) 792-2557

Response From District Officials

On behalf of the Glens Falls Common School District and the Board of Education, we would like to state that we have gone over the Audit Report in detail and we agree with the recommendations. It is our priority to manage available resources efficiently and to effectively meet the expectations of our constituents.

We fully realize that we must address the following issues: Develop and adopt budgets that are structurally balanced, closely monitor the District's use of unrestricted fund balance, develop and adopt a fund balance policy, and develop a comprehensive multiyear financial plan.

The District, realizing its fiscal hardship, has been proactive in taking steps to address this issue. We have closely examined all areas to look for possible revenue increases and to identify cost-saving opportunities. After identifying these areas, we implemented the following: reviewed and improved our Medicaid claiming process and increased our reimbursements to the District, examined our tuition bills and identified areas of overbilling, worked cooperatively with a neighboring district to share services and reduced our overall expenditures on transportation, and identified cost-saving opportunities by filling positions of retired employees as a lower cost to the District.

We will continue to explore ways to ensure the fiscal health for our district for both the short and long term. We will develop and adopt a fund balance policy that establishes an adequate amount of unrestricted fund balance to be maintained, and develop a comprehensive multiyear financial plan to establish long-term objectives for funding long-term needs.

Sincerely,

John Godfrey
Superintendent

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to review the District's financial condition for the period July 1, 2012 through February 28, 2015. To achieve our objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed District officials to determine the processes in place and gain an understanding of the District's financial situation and budget and to identify causes of significant budget variances.
- We analyzed the District's financial records for the general fund for the 2012-13 and 2013-14 fiscal years to determine if the District's financial condition had declined. We also evaluated any factors contributing to the decline.
- We compared the adopted budgets for the general fund for the 2012-13 and 2013-14 fiscal years with the actual results of operations to determine if the budgets were realistic and structurally balanced. This comparison included a judgmental review of all significant revenues and expenditures greater than 4 percent of the total budgeted appropriations to determine if estimates were reasonable.
- We analyzed the general fund's cash flow and reviewed information relating to the issuance and repayment of short-term debt.
- We reviewed the 2014-15 adopted budget for the general fund and financial records from July 1, 2014 through February 28, 2015 to determine whether the budgeted revenues and appropriations were reasonable based on historical data, supporting source documentation and the actual results of operations through February 28, 2015.
- We obtained and reviewed the District's projection of 2014-15 revenues and expenditures. We interviewed District officials and reviewed supporting documentation to evaluate the District's projections and determine whether they appeared reasonable.

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

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX D
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Otsego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE

Jeffrey D. Mazula, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Buffalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming Counties

GLENS FALLS REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin,
Fulton, Hamilton, Montgomery, Rensselaer,
Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE

Tenneh Blamah, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

SYRACUSE REGIONAL OFFICE

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AUDITS

Ann C. Singer, Chief Examiner
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313