



Schuylerville Central School District Fund Balance

Report of Examination

Period Covered:

July 1, 2012 – November 30, 2015

2016M-113



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 2016

Dear School 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 districts' 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 Schuylerville Central School District, entitled Fund Balance. 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 Schuylerville Central School District (District) is located in eastern Saratoga County. The District is governed by the Board of Education (Board), which is composed of seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The District operates three schools with approximately 1,700 students and 290 employees. The District's budgeted appropriations for the 2015-16 fiscal year were \$33.7 million, which were funded primarily with State aid, real property taxes and grants.

Objective

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

- Did District officials effectively manage the fund balance of the general fund?

Scope and Methodology

We examined the District's financial condition for the period July 1, 2012 through November 30, 2015. We also reviewed the District's 2015-16 adopted budget.

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 have initiated, or indicated they planned to initiate, corrective action.

The Board has the responsibility to initiate corrective action. 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, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by

the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Fund Balance

The Board and other District officials are responsible for accurate and effective financial planning, which includes managing the level of fund balance within statutory limits and reserving certain amounts to plan ahead for future costs. According to New York State Real Property Tax Law, a district may retain up to 4 percent of the ensuing year's appropriations as unrestricted fund balance¹ to serve as a financial cushion for unexpected events and maintaining cash flow.

A district can also reserve portions of fund balance to finance future costs for a variety of specified purposes (e.g., capital project, retirement expenditures). However, District officials should ensure that reserve balances do not exceed what is necessary to address long-term obligations or planned expenditures. Once the Board has addressed those issues, any remaining fund balance, exclusive of the amount allowed by law to be retained to address cash flow and unexpected occurrences, should be used to benefit the residents, such as by reducing the tax levy.

District officials have not effectively managed the fund balance of the general fund. As a result, the fund balance exceeded the statutory limit for the fiscal years ending June 30, 2014 and 2015. In addition, although the District has funded reserves, the Board has not established a plan that states the necessary funding levels and provides guidelines for use and replenishment of the reserve funds.

Fund Balance – During the 2013-14 fiscal year the District transferred more than \$1.4 million in excess funds from the employee benefit accrued liability reserve (EBALR) to the general fund causing the fund balance to exceed the statutory limit at year-end.² During the 2014-15 year the District transferred an additional \$966,857 from the EBALR to the general fund.³ Because the District did not have a plan for the use of the amounts transferred from the EBALR reserve, the general fund's unrestricted fund balance continued to exceed that statutory limit as of June 30, 2015. For the past three fiscal years, 2012-13 through 2014-15, the District retained unrestricted fund

¹ For purposes of computing fund balance subject to the Real Property Tax Law, unrestricted fund balance is committed, assigned and unassigned fund balance minus appropriated fund balance and encumbrances included in committed and assigned fund balance.

² During 2013-14 fiscal year, OSC certified that the District had more than \$2.7 million in excess money in its EBALR. The District was authorized by New York State Legislation to transfer \$1.4 million (the amount of the District's Gap Elimination Adjustment) out of that reserve.

³ OSC also certified the excess permitting the District to transfer these funds.

balance amounts increased from 4.8 percent to 9.7 percent of the ensuing year's appropriations.

Figure 1: Unrestricted Fund Balance Reported at Year-End

	2012-13	2013-14	2014-15
Beginning Fund Balance	\$8,455,724	\$7,990,933 ^a	\$7,912,635 ^b
Operating Surplus/(Deficit)	(\$407,864)	\$204,124	\$96,048
Ending Fund Balance	\$8,047,860	\$8,195,057	\$8,008,683
Less: Restricted	\$5,496,513	\$4,230,636	\$3,815,742
Less: Encumbrances	\$328,474	\$93,779	\$309,370
Less: Appropriated For Ensuuing Year	\$696,053	\$650,000	\$625,000
Unrestricted Fund Balance	\$1,526,820	\$3,220,642	\$3,258,571
Ensuuing Years Budgeted Appropriations	\$32,064,417	\$32,782,083	\$33,696,614
Unrestricted Funds as a Percentage of Ensuuing Year's Budget	4.76%	9.82%	9.67%

^a Includes \$56,941 prior period adjustment to decrease fund balance resulting adjustments made during the annual independent audit plus a \$14 unidentified adjustment.

^b Includes \$282,434 prior period adjustment to decrease fund balance resulting adjustments made during the annual independent audit plus a \$12 unidentified adjustment.

On June 30, 2015 the District recorded transfers totaling \$920,000 from the general fund to reserves funds.⁴ However, the Board had not formally authorized these transfers which resulted in the actual amount of unrestricted fund balance being understated as of June 30, 2015. We found no evidence of any Board action to fund these reserves, even after June 30, 2015. The Board President said that the Board does not have a specific plan for managing the amount of the District's fund balance and does not recall when the Board approved the \$920,000 transfer for the fiscal year ending June 30, 2015.

The Business Manager reported fund balance of almost \$3.3 million as of June 30, 2015. However, we recalculated the District's year-end fund balance to include the amount of funds erroneously recorded as being transferred prior to the end of the fiscal year.⁵ After making adjustments, the unrestricted fund balance was almost \$4.2 million as of June 30, 2015, which was 12.4 percent of the ensuing year's appropriations. At the end of the 2012-13 through 2014-15 fiscal years, the amount of unrestricted fund balance was \$244,000, \$1.9 million and \$2.8 million, respectively, in excess of the amount permitted by statute.

⁴ Transfers were made to the following: \$650,000 to the retirement reserve, \$50,000 to the unemployment reserve and \$220,000 to the tax certiorari reserve.

⁵ The understated amount of fund balance was reported in the District's accounting records and the annual financial report filed with the NYS Department of Education (ST-3). However, the independent auditor did not recognize the transfer in the audited financial statements and therefore, reported unrestricted fund balance as 12.4 percent of the ensuing year's budget.

Figure 2: Recalculated Unrestricted Fund Balance			
	2012-13	2013-14	2014-15
Total Unrestricted Funds at Year-End	\$1,526,820	\$3,220,642	\$3,258,571
Add: Transfers Made Subsequent to Fiscal Year-End	\$0	\$0	\$920,000
Total Recalculated Unrestricted Funds	\$1,526,820	\$3,220,642	\$4,178,571
Recalculated Unrestricted Fund Balance as Percentage of Ensuing Year's Budget	4.76%	9.82%	12.40%

Reserves – A reserve fund should be established with a clear intent or plan regarding the future purpose, use and, when appropriate, replenishment of funds into the reserve. The District had six reserves⁶ with an accumulated balance of \$4.8 million as of November 30, 2015.

District officials have not developed a plan to document their intentions for the amount necessary for any of the District's reserves or the future use of the reserve funds. In addition to the \$920,000 transferred to reserves in June 2015, the District transferred an additional \$995,000 to the reserves in August 2015.

We analyzed the reserves for reasonableness and adherence to statutory requirements. We found that the \$995,000 transfer in August was used to fund two recently Board-established reserves for workers' compensation in the amount of \$245,000 and a future potential liability for \$750,000. The amounts used to fund the reserves were reasonable and the reserves were established in accordance with statutory requirements. However, we question the need for additional funding of \$650,000 for the retirement contribution reserve.

The District established the retirement contribution reserve during the 2009-10 school year to pay benefits for employees covered by the New York State Local Retirement System (NYSLRS). The balance in this reserve was increased from approximately \$1 million to \$1.7 million on June 30, 2015.⁷ The District's average annual expenditures allocated to NYSLRS for the 2012-13 through 2014-15 fiscal years were approximately \$600,000, which has been funded completely through annual budgetary appropriations. No funds from the reserve were used to pay for the NYRLRS costs. District officials have not used the funds in this reserve to pay for any of the District

⁶ The District has established the following six reserves: retirement contribution, workers' compensation, liability, unemployment insurance, tax certiorari, and employment benefit accrued liability reserve (EBALR).

⁷ This was part of the \$920,000 transfer recorded on June 30, 2015 that was not approved by the Board.

contributions to NYSLRS despite accumulating enough funds to pay almost three years of its average annual retirement costs.

The Board and District officials have not prepared a plan to document their intentions for funding, using and replenishing these reserve funds. When funding reserves, it is essential to establish a plan identifying the future need for these funds.

Recommendations

The Board and District officials should:

1. Ensure that the amount of the District's unrestricted fund balance is in compliance with the statutory limits and reduce the amount of unrestricted fund balance in a manner that benefits District residents. Such uses could include, but are not limited to, paying off debt, financing one-time expenditures and reducing property taxes.
2. Develop a plan for the future funding and use of reserve funds and ensure amounts reserved are reasonable.

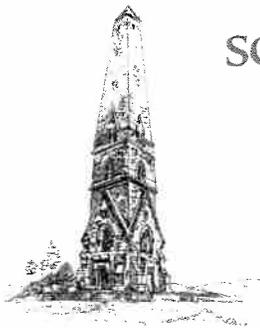
⁸ This was also recorded as of June 30, 2015 and not approved by the Board.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

SCHUYLERVILLE CENTRAL SCHOOL DISTRICT



Saratoga Battle Monument
at Schuylerville

OLD SARATOGA 1777

14-18 Spring Street
Schuylerville, N.Y. 12871
Phone (518) 695-3255
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June 14, 2016

[REDACTED]
NYS Office of the State Comptroller
Division of Local Government and School Account Ability
One Broad Street Plaza
Glens Falls, NY 12801

Dear [REDACTED]

We would like to thank you for the thorough and complete examination of our business office practices. Based upon your review, we are pleased that you feel our practices and procedures meet your expectations with exception of the two recommendations provided by your office.

As per our discussion, the district formally (via resolution) adopted our long-standing budget plan at its regularly scheduled meeting on June 13th. The plan which has been executed to date, involved pulling out excess money from the EBALR Reserve with NYS Comptrollers permission and placing it in fund balance. The additional EBALR funds created an Unappropriated Fund Balance over the recommended 4%. The plan presented to the Board of Education for adoption contains a controlled drawdown of reserves and Unappropriated Fund Balance. The use of these funds will offset anticipated budget increases and revenue decreases while maintaining reasonable tax levy increases. This will allow the district to maintain financial stability and provide consistently successful academic programs. Moreover, the district formally adopted policies #5543 Reserve Funds and #5544 Maintenance of Fund Balance at the June 13, 2016 board meeting.

We appreciate your guidance and candor during this audit. Since we have implemented these actions as of June 13, 2016, please consider this our corrective action plan also.

Sincerely,

Judi Dunkel
District Clerk
Schuylerville Board of Education

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials and reviewed the Board meeting minutes and resolutions to gain an understanding of the processes and procedures over the District's financial management.
- We calculated the unrestricted fund balance in the general fund as a percentage of the ensuing year's budgeted appropriations to determine if the District was within the statutory limits.
- We documented the District's reserves and analyzed each reserve to determine if the reserve was established according to the applicable statutes and if the funding was reasonable.
- We reviewed the District accounting records to determine if the Board accounted for certain expenditures in the annual budgets.
- We reviewed the supporting documentation for fund balance classifications to determine if they were 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.

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