

Fort Edward Union Free School District

Financial Condition

MAY 2020



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

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Report Highlights

Fort Edward Union Free School District

Audit Objective

Determine whether the District maintained adequate fund balances.

Key Findings

- The District's financial condition significantly declined due to a successful tax certiorari challenge. As a result, unrestricted fund balance as of June 30, 2019 totaled less than 1 percent of the next year's appropriations.
- Based on the District's outstanding tax certiorari liability of approximately \$1.8 million, the District has an unfunded liability of approximately \$873,000 as of July 31, 2019.
- District officials did not adopt a multiyear financial plan to address future unexpected revenue shortfalls or unanticipated expenditures.

Key Recommendations

- Adopt a multiyear financial plan that is annually updated.
- Continue to explore options to provide for revenue enhancement, cost savings opportunities and to fund the tax certiorari liability.

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

Background

The Fort Edward Union Free School District (District) serves the Town of Fort Edward in Washington County (County). The nine-member elected Board of Education (Board) is responsible for the general management and control of financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer and, along with other administrative staff, is responsible for day-to-day management under the Board's direction.

Quick Facts

Enrollment	480
2019-20 Appropriations	\$11.9 million
June 30, 2019 Tax Certiorari Reserve	\$892,000

Audit Period

July 1, 2016 – July 31, 2019

Financial Condition

How Does a Board Effectively Manage Fund Balance?

An important tool for managing a district's finances is the adoption of a fund balance policy to maintain adequate resources to satisfy contingencies and to maintain adequate fund balance levels. Prudent fiscal management also includes establishing reserves needed to address long-term obligations or planned future expenditures. Tax certiorari reserve funds are created to accumulate funds necessary to pay judgments and claims in tax certiorari proceedings.¹ The total amount of money in a tax certiorari reserve may not exceed the amount that can reasonably be expected to meet anticipated tax certiorari judgments and claims.

A multiyear financial plan is essential to help district officials identify and develop revenue and expenditure trends. Planning on a multiyear basis enables officials to identify developing revenue and expenditure trends, establish long-term priorities and goals and consider the impact of current budgeting decisions on future years.

Such a plan allows officials to assess the merits of alternative approaches, such as using unrestricted fund balance or establishing and using reserves to finance operations. Any long-term financial plan should be monitored and updated on a continuing basis to provide a reliable framework for preparing budgets and ensuring that the information used to guide decisions is current and accurate.

Financial Condition Has Significantly Declined

In anticipation of a negative financial impact from a real property tax assessment challenge (tax certiorari), the District accumulated more than \$1.9 million in a tax certiorari reserve as of June 30, 2017. However, two tax certiorari settlements,² which impacted District real property taxes for 2017-18 and 2018-19, exceeded the amount of money in the reserve and had a significant negative impact on financial condition.

One settlement required the District to refund the property taxes paid on two parcels, from 2008-09 through 2015-16, totaling approximately \$1.86 million. Officials paid the property owner \$1.86 million from the tax certiorari reserve in November 2017.

These two parcels were subsequently transferred to another owner who challenged the tax assessment in a second settlement, and did not pay property tax bills totaling approximately \$2 million from 2015-16 through 2016-17. The County, serving as the enforcement agent of unpaid real property taxes for the

1 A tax certiorari is the legal process by which a property owner can challenge the assessed value on their property to reduce the real estate taxes on the property.

2 A tax certiorari settlement occurs when both parties agree to resolve their differences as to the property assessment or fair market value.

District, paid approximately \$2 million to the District for the taxes on these parcels when the District turned over the unpaid tax bills for enforcement. As a result of this settlement, the District was required to reimburse the County this amount.³

During 2018-19, the District paid the County approximately \$222,700 from the general fund, leaving an unfunded liability owed the County of approximately \$1.8 million, which was to be repaid by the end of 2019-20. As a result of the settlement payments made in 2017-18 and 2018-19, the District's financial condition significantly declined and unrestricted fund balance as of June 30, 2019 declined to less than 1 percent of the next year's appropriations.

Total general fund balance of \$3.8 million at the end of 2016-17 declined to \$1.8 million by the end of 2018-19 (a decrease of \$2 million or 53 percent). Similarly, the 2016-17 year-end unrestricted fund balance of approximately \$747,000 (7 percent of the next year's appropriations) decreased significantly and was only \$30,229 at the end of 2018-19 (a 96 percent decrease and less than 1 percent of the next year's appropriations).

Figure 1: Unrestricted Fund Balance at Year-End

	2016-17	2017-18	2018-19
Total Beginning Fund Balance	\$3,916,698	\$3,781,317 ^a	\$2,138,325
Operating Surplus (Deficit)	(\$135,387)	(\$1,642,992)	(\$351,606)
Total Year-End Fund Balance	\$3,781,311	\$2,138,325	\$1,786,719
Less: Restricted and Assigned Funds	\$2,771,318	\$1,164,318	\$1,466,526
Less: Appropriated Fund Balance for the Next Year	\$262,531	\$243,772	\$289,964
Total Unrestricted Funds at Year-End	\$747,462	\$730,235	\$30,229
Ensuing Year's Budgeted Appropriations	\$10,857,000	\$11,391,256	\$11,760,815
Unrestricted funds as Percentage of the Next Year's Budget	7%	6%	.3%

a Includes a prior period adjustment to increase beginning fund balance by \$6 in 2017-18

In September 2018, the District's attorney recommended that District officials increase the tax certiorari reserve balance to \$2.3 million. However, officials could only increase the reserve balance to \$892,095 as of July 31, 2019. Subsequently, the Board passed a resolution in October 2019 to issue up to \$1.8 million in serial bonds to finance the total amount due to the County and satisfy the tax certiorari

³ The settlement, signed on March 19, 2019, entitled the County (from 2015-16 through 2016-17) to recover the amounts previously reimbursed to the District for unpaid taxes.

settlement in March 2020. However, the Superintendent told us that they currently plan to borrow \$1.3 million and use \$500,000 from the tax certiorari reserve.

Because of the decline in financial condition and additional costs to issue the debt required to pay the County, the District risks being unable to absorb future unexpected revenue shortfalls or unanticipated expenditures. Further decline in financial condition could result in the District being unable to provide necessary services to students and staff.

The Board Did Not Adopt a Multiyear Financial Plan

The Board adopted a fund balance policy⁴ and a reserve fund policy but did not develop a multiyear financial plan or adopt a plan to address the District's current financial condition. However, District officials have developed a plan to pay the County for the tax certiorari settlement and continue to discuss the District's financial condition. For example, the Board is considering merging with neighboring districts. In addition, officials have contracted with the Franklin-Essex-Hamilton BOCES for shared business office services, which is expected to save a total of \$100,000 for 2020-21 and 2021-22. Once the Board has determined a course of action, a written multiyear financial plan should be established, monitored and updated, as necessary, to aid officials in achieving improved financial condition.

What Do We Recommend?

The Board should:

1. Adopt a multiyear financial plan that is annually updated to enable the District in identifying developing revenue and expenditure trends.
2. Continue to explore options to provide for revenue enhancement, cost savings opportunities and to fund the tax certiorari liability.

⁴ An unrestricted fund balance policy was adopted in June 2015 and updated in August 2019. This policy stipulates the creation, purpose, funding method (funds that have been accumulated from excess fund balance), use of funds (not to be used except for an emergent, unanticipated expense, or revenue shortfall that cannot be handled in the budget or other available reserves), assigns the duties of monitoring the balances to the District Treasurer/Business Manager, and establishes the maximum legal limit of four percent of the next year's appropriations.

Appendix A: Response From District Officials

FORT EDWARD UNION FREE SCHOOL DISTRICT

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

Karen Jones
PK-5 Principal

Daniel Ward
Superintendent of Schools

Samuel Ratti
6-12 Principal

4/21/2020

Fort Edward Union Free School District
Financial Condition Report
2019-M245

NYS Comptroller's Office:

Please accept this letter, as approved by the Fort Edward Board of Education on April 21st, 2020, to serve as the District's Response and Corrective Action Plan for the recently completed audit.

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

Audit Recommendation: Adopt a multiyear financial plan that is annually updated to enable the District in identifying developing revenue and expenditure trends.

Implementation Plan of Action(s): The school district had a multi-year financial plan that was developed in collaboration with Rick Timbs, and was in place at the time of the audit. However this plan did not take the current Tax Cert liability into consideration. A new updated plan has also been developed by the current Business Manager, and shared with the Superintendent, Board of Education, and the Public in the month of February 2020.

Audit Recommendation: Continue to explore options to provide for revenue enhancement, cost savings opportunities and to fund the tax certiorari liability.

Implementation Plan of Action(s): The school district is constantly seeking out additional forms of revenue as well as ways to cut expenditures. With the current financial state, cash along with all revenues and expenses are being monitored on a daily basis by the Franklin Essex Hamilton Shared Business Office. This practice will continue indefinitely. At this time the BOE/School District has begun to close unnecessary reserves to assist with cash flows. The current tax cert liability payment that exceeded over one million dollars has caused the tax cert reserve to be drained and closed, and this reserve will remain in that state until cash flow allows otherwise.

Thank you,

Daniel A. Ward

Appendix B: 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 employees to determine the District's financial accounting procedures and inquired whether any cash flow projections or multiyear plans were in place.
- We determined the reliability of the District's accounting records for the last completed year (2018-19) by tracing to support (e.g., original invoices, validated deposit slips/supporting documentation, Board minutes, County tax warrants) and recalculating account balances and comparing those balances to the accounting records.
- We reviewed the Board-adopted budgets and actual results of operations for the general fund for 2016-17 through 2018-19 to determine whether revenues and expenditures were over or under budgeted and considered budget variances of 10 percent or less as reasonable. For specific revenues and expenditures that were over or under budgeted, we used our professional judgment and selected our sample to include all health benefits and all other expenditures with budget variances of at least \$25,000 and 25 percent. We also determined whether the budgets were structurally balanced (recurring expenditures were financed with recurring revenues).
- We reviewed the fund balance policy to determine whether District officials adopted a fund balance policy setting forth an adequate amount of fund balance they wish to carry over each fiscal year. We reviewed the reserve fund policy for Board determined levels of funding. We also performed reasonableness tests to determine whether reserve funds were over or under funded as of June 30, 2019.
- We projected 2019-20 cash flow based on June 30, 2019 cash balances and budgeted revenues, less budgeted expenditures.
- We inquired whether the Board and District officials identified the cause of any general fund financial condition decline and/or inability of the fund to be self-sufficient and whether any plans had been developed or implemented to create revenue enhancement and/or cost savings measures.
- We obtained the Superintendent and Board President's plan for paying Washington County the tax certiorari liability.

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.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

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 2116-1(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 to the District's website for public review.

Appendix C: 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#lmgm

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/pubs/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.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

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

www.osc.state.ny.us/localgov/index.htm

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

GLENS FALLS REGIONAL OFFICE – Gary G. Gifford, Chief Examiner

One Broad Street Plaza • Glens Falls, New York 12801-4396

Tel (518) 793-0057 • Fax (518) 793-5797 • Email: Muni-GlensFalls@osc.ny.gov

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