

# Mechanicville City School District

## Financial Condition

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SEPTEMBER 2017

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

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# Report Highlights

## Mechanicville City School District

### Audit Objective

Determine whether the Board effectively managed the District's finances by adopting realistic budgets and if it kept the unrestricted fund balance within statutory limits.

### Key Findings

- District officials annually overestimated appropriations from 2013-14 through 2015-16. The budgets overestimated appropriations by almost \$4.6 million or 7.4 percent over these years. District officials also appropriated a total of \$2.5 million in fund balance that was not used to finance operations over these years.
- The District's fund balance increased by more than \$2.7 million and exceeded the statutory limit by 13.3 percentage points at the end of 2015-16.

### Key Recommendations

- Develop realistic estimates of appropriations and the use of fund balance in the annual budget.
- Develop comprehensive multiyear financial and capital plans.
- Ensure that the amount of fund balance is in compliance with statutory limits.

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

### Background

The Mechanicville City School District (District) is located in the City of Mechanicville and part of the Towns of Stillwater and Halfmoon in Saratoga County and the Town of Schaghticoke in Rensselaer County.

The seven-member Board of Education (Board) is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the District's chief executive officer responsible, along with other administrative staff, for day-to-day District management. The Business Manager oversees the District's business operations.

#### Quick Facts

1,330	<b>Enrollment</b>
17.3%	<b>2015-16 Unrestricted Fund Balance</b>
\$23.9 million	<b>2016-17 Appropriations</b>

### Audit Period

July 1, 2013 – January 31, 2017

# Financial Condition

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The Board is responsible for making sound financial decisions in the best interest of the District, the students it serves and the residents who fund the District's programs and operations. This responsibility includes adopting budgets with realistic revenue and expenditure estimates and appropriating a reasonable amount of fund balance, when available, to fund District operations. Accurate budget estimates and the appropriate use of fund balance help ensure that the real property tax levy is not greater than necessary and the budget process is transparent. Any fund balance in excess of the amount allowed by law to be retained for cash flow and unexpected occurrences should be used in the District's best interest.

## **How Do Realistic Estimates Help in Budget Preparation?**

It is essential that District officials develop accurate and reasonable budgets to balance recurring expenditure needs with recurring revenue sources while providing desired services on a continuing basis and managing fund balance responsibly. When preparing the budget, the Board must estimate revenues, expenditures and the amount of fund balance that will be available at year-end, some or all of which may be used to help fund the next year's appropriations.

Revenue and expenditure estimates should be developed based on prior years' operating results, past expenditure trends, anticipated future needs and available information related to projected changes in revenues or expenditures. Unrealistic budget estimates can mislead District residents and have a significant effect on the District's annual results of operations, year-end surplus fund balance, financial condition and tax rate.

It is important for District officials to develop multiyear financial and capital plans to estimate the future costs of ongoing services and capital needs. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period. Such plans allow District officials to identify developing revenue and expenditure trends, establish long-term priorities and goals and consider the impact of near-term budgeting decisions on future fiscal years.

Multiyear plans also help District officials to assess the merits of alternative approaches (such as appropriating fund balance or establishing and using reserves) to finance operations and capital needs. Any long-term financial plan must 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.

District officials should ensure that unrestricted fund balance does not exceed the amount allowed by New York State Real Property Tax Law, which currently limits unrestricted fund balance to no more than 4 percent of the following year's appropriations. Any unrestricted funds that exceed the statutory limit may be appropriated to partially fund the next year's appropriations to reduce the amount of real property taxes needed to be raised, pay for one-time purchases, fund needed reserves or pay off debt. When the Board appropriates fund balance as a funding source, the expectation is that there will be a planned operating deficit in the next fiscal year, financed by fund balance.

### The District Did Not Adopt Realistic Budgets

The Board and District officials did not develop reasonable budgets. They annually overestimated operating expenditures for at least the last three fiscal years and appropriated fund balance that was not used to finance operations. We compared budgeted amounts for revenues and appropriations for fiscal years 2013-14 through 2015-16 and found actual revenues were generally consistent with budgeted estimates. However, the Board overestimated appropriations for this same time period by approximately \$4.6 million (7.4 percent). In addition, the Board appropriated nearly \$2.5 million of fund balance that was not used to finance operations due to the overestimated appropriations.

**Figure 1: Overestimated Appropriations**

	Appropriations	Actual Expenditures	Overestimated Appropriations	Percentage Overestimated
<b>2013-14</b>	\$21,522,171	\$20,748,246	\$773,925	3.7%
<b>2014-15</b>	\$22,238,750	\$20,574,005	\$1,664,745	8.1%
<b>2015-16</b>	\$23,209,437	\$21,064,454	\$2,144,983	10.2%
<b>Totals</b>	<b>\$66,970,358</b>	<b>\$62,386,705</b>	<b>\$4,583,653</b>	<b>7.4%</b>

The majority of the budget variances during this three-year period were related to health insurance (overestimated by \$1.5 million, or 18 percent), revenue anticipation note (RAN) interest (\$150,000, or 100 percent), serial bonds interest (\$98,000, or 69 percent), tuition (\$82,000, or 71 percent) and employees' retirement system expenditures (\$244,000, or 18 percent).

While some expenditures are difficult to accurately estimate, others, such as interest on bonds and notes and retirement costs can be easily predicted and should be budgeted appropriately. Most of the Board's overestimates were significant and avoidable.

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The Business Manager told us that RAN interest was budgeted as a precautionary measure in case a RAN was issued to address cash flow needs. However, the District generated operating surpluses over the past three years (Figure 2), had sufficient cash flow to fund operating costs and did not need to issue RANs. The amount appropriated for RAN interest was significantly excessive considering the current interest rates District officials would pay if a RAN was issued.

Additionally, when the District officials issued serial bonds, they were provided with a schedule of all future principal and interest payments. Thus, District officials should readily be able to accurately estimate annual serial bond interest costs.

District officials and the Board President told us that they overestimated expenditures in an effort to generate surpluses to save for one time expenditures (i.e., computers, furniture, etc.) associated with the District's capital project.<sup>1</sup> The Board's desire to have funds on hand to finance future capital costs is understandable and could have been accomplished in a transparent manner by including a transfer to capital reserve in the budget. The Board's practice of significantly overestimating appropriations each year and accumulating fund balance diminished transparency to District residents.

The Board and District officials did not develop multiyear financial and capital plans that would define how unrestricted fund balance would be used. In addition, the Board did not establish reserve funds, transfer excess fund balance to the reserves or provide a provision in each year's budget to fund the reserves. Developing multiyear financial and capital plans and transparent budgeting practices would have allowed the Board to fund reserves for the capital project in a more transparent manner.

The District increased its tax levy to fund the overestimated appropriations. The Board increased the real property tax levy by a total of \$1.2 million (9 percent) from 2013-14 through 2015-16 without exceeding the tax cap limit.

### **District Fund Balances Exceeded the Statutory Limit**

The District realized annual operating surpluses that accumulated to more than \$2.7 million over the past three years (Figure 2). As a result, the District's year-end unrestricted fund balance exceeded the statutory limit by more than \$544,000 in 2013-14, \$1.6 million in 2014-15 and \$3.2 million in 2015-16. We project the

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The District's year-end unrestricted fund balance exceeded the statutory limit by more than \$544,000 in 2013-14, \$1.6 million in 2014-15 and \$3.2 million in 2015-16.

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<sup>1</sup> District voters approved a \$33.5 million capital project in December 2015, which is currently underway to make District-wide improvements to school facilities and grounds.

District will realize an operating surplus of approximately \$1.6 million in 2016-17, which will result in an unrestricted fund balance of approximately \$5 million, or 19.5 percent of the 2017-18 budgeted appropriations and exceed the statutory limit by more than \$3.5 million.

The Business Manager presented a budget workshop and fund balance analysis in which appropriated fund balance ranged from \$1.4 to \$2.2 million based on the difference between the District’s ensuing year’s budgeted revenues and appropriations. Given the District’s past practice of overestimating appropriations and to be conservative, we used the lower estimate of appropriated fund balance for our 2017-18 projections (Figure 2).<sup>2</sup>

**Figure 2: Unrestricted Fund Balance at Year End**

	2013-14	2014-15	2015-16	Projected 2016-17
Total Beginning Fund Balance	\$2,614,912	\$2,634,887	\$3,769,112	\$5,587,244
Prior Period Adjustments	(\$12,946) <sup>a</sup>	\$4,403 <sup>b</sup>	\$270,179 <sup>c</sup>	\$0
Add: Operating Surplus	\$32,921	\$1,129,822	\$1,547,953	\$1,566,691
Total Ending Fund Balance	\$2,634,887	\$3,769,112	\$5,587,244	\$7,153,935
Less: Restricted Funds	\$387,579	\$398,628	\$735,396	\$735,396
Less: Encumbrances	\$3,070	\$123,742	\$16,286	\$60,000
Less: Appropriated Fund Balance for the Ensuing Year	\$815,000	\$725,000	\$695,000	\$1,395,000
Total Unrestricted Funds at Year-End	\$1,429,238	\$2,521,742	\$4,140,562	\$4,963,539
Ensuing Year’s Budgeted Appropriations	\$22,130,625	\$23,067,695	\$23,904,552	\$25,441,605
Unrestricted Funds as Percentage of Ensuing Year’s Budget	6.5%	10.9%	17.3%	19.5%

a To record the adjustment for funds not received from a Federal Section 611 grant.

b To record the receipt of State aid of \$23,761 for prior fiscal years and a decrease of \$19,358 in tuition rate adjustments and summer school for handicapped students aid receivable.

c To record excess bond proceeds, additional excess cost aid received of \$320,812 from prior fiscal years and a decrease of \$50,633 in BOCES aid receivable, PILOTs receivable and the return of State aid received in a prior year.

The District’s budgetary practices led to a significantly increasing level of unrestricted fund balance that is in excess of the amount permitted by statute. Furthermore, the annual practice of appropriating fund balance that is not needed or used to finance operations is, in effect, a reservation of fund balance that is not provided for by law and a circumvention of the statutory limit imposed on the level of unrestricted fund balance.

<sup>2</sup> The actual amount of appropriated fund balance is unknown until the tax warrant is adopted early in the next fiscal year. Unrestricted fund balance changes depending on the amount of fund balance District officials appropriate.

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## What Do We Recommend?

District Officials should:

1. Develop realistic estimates of appropriations and the use of fund balance in the annual budget based on historical or other known trends.
2. Discontinue the practice of appropriating fund balance that is not needed or used to fund District operations.
3. Develop comprehensive multiyear financial and capital plans to provide a framework for future budgets and guide the District's management of financial condition. These plans should be periodically reviewed and updated as appropriate.
4. Ensure that the amount of the District's fund balance is in compliance with statutory limits and use the excess funds as a funding source in a manner that benefits District residents for:
  - Funding one-time expenditures;
  - Funding needed reserves; and
  - Reducing District property taxes.



# Appendix A: Response From District Officials

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District Clerk  
(518) 664-5727 Ext. 2203



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Business Manager  
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September 22, 2017

Jeffrey P. Leonard, Chief Examiner  
Office of the State Comptroller  
One Broad Street Plaza  
Glens Falls, New York 12801-4396

Dear Mr. Leonard:

We are in receipt of the "draft" report of our examination (audit). After reviewing the same with representatives of your office, we find that we accept your findings.

As required, we will prepare a corrective action plan and submit it in a timely manner.

Thank you for the professionalism accorded us by your audit staff.

Respectfully,

William T. Woods  
Business Administrator

WTW/ms  
CC: Joseph Waldron, BOE President  
Dr. Michael J. McCarthy, Superintendent of Schools

## Appendix B: Audit Methodology and Standards

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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, we performed the following audit procedures:

- We interviewed District officials and reviewed Board minutes to gain an understanding of the budgeting process for the general fund, including the rationale for determining the amount of unrestricted fund balance available for appropriation and the procedures for monitoring and controlling the budget.
- We calculated the general fund's unrestricted fund balance as a percentage of the ensuing year's appropriations to determine whether the District was within the statutory limitation during fiscal years 2013-14 through 2015-16.
- We compared the revenues and appropriations in the original adopted budgets to the actual revenues and expenditures in the general fund for fiscal years 2013-14 through 2015-16 to determine whether budgeted revenues and appropriations were realistic.
- We reviewed actual expenditures for fiscal years 2013-14 through 2015-16 to determine which expenditure types contributed the most to the District's budget-to-actual variances. In addition, we compared general fund estimated revenues and appropriations in the current 2016-17 budget with the budgets for the previous fiscal years. We interviewed District officials to identify reasons for significant budget variances.
- We reviewed budget versus actual revenue and appropriation reports to project year-end revenues, expenditures, and fund balance for the 2016-17 fiscal year.

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.

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 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 the CAP available for public review in the Clerk's office.

# Appendix C: Resources and Services

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## **Regional Office Directory**

[www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://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](http://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](http://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](http://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](http://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/lgli/pdf/cybersecurityguide.pdf](http://www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.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](http://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](http://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](http://www.osc.state.ny.us/localgov/academy/index.htm)

## Contact

Office of the New York State Comptroller  
Division of Local Government and School Accountability  
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