

# Schalmont Central School District

## Financial Condition Management

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APRIL 2018

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

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# Report Highlights

## Schalmont Central School District

### Audit Objective

Determine whether District officials effectively managed fund balance.

### Key Findings

- Unrestricted fund balance exceeded the statutory limit at the end of the 2015-16 and 2016-17 fiscal years.
- The general fund's reported results of operations and fund balance figures were inaccurate due to money being transferred to and accounted for in the general fund that should have been transferred to a debt service fund.

### Key Recommendations

- Develop a plan to reduce the amount of unrestricted fund balance to the legal limit.
- Continue to monitor the capital fund, close completed projects and transfer any excess funds to the appropriate fund in a timely manner.

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

### Background

The Schalmont Central School District (District) serves the Towns of Rotterdam, Princetown and Duanesburg in Schenectady County, the Town of Guilderland in Albany County and the Town of Florida in Montgomery County.

The Board of Education is responsible for managing the District's financial and educational affairs. This responsibility includes effectively managing the District's financial operations and fund balance level. The Superintendent of Schools is the chief executive officer and, along with other administrative staff, is responsible for the District's day-to-day management under the Board's direction.

#### Quick Facts

Employees	324
Enrollment	1,800
2016-17 Appropriations	\$46.6 million

### Audit Period

July 1, 2014 - June 30, 2017

We extended our scope back to July 1, 2006 for our analysis of transfers from the capital fund to the general fund.

# Financial Condition Management

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## What Is Effective Financial Condition Management?

To effectively manage financial condition, the board should adopt realistic and structurally balanced budgets based on historical data or known trends, in which recurring revenues finance recurring expenditures. In preparing the budget, the board must estimate the amounts it will spend and the amounts it will receive in revenue (e.g., State aid), how much fund balance will be available at year-end and, to balance the budget, the expected tax levy. Accurate estimates help ensure the real property tax levy is not greater than necessary. The board should weigh the accumulation of fund balance for future needs with their obligation to ensure the real property tax levy is not greater than necessary.

The board is responsible for maintaining reasonable fund balance levels. Fund balance is the difference between revenues and expenditures accumulated over time. New York State Real Property Tax Law currently limits the amount of unrestricted fund balance that a school district can retain to no more than 4 percent of the next fiscal year's budget.

Additionally, school districts are allowed to legally set aside, or reserve, portions of fund balance to finance future costs for specific purposes (e.g., tax certiorari, unemployment or retirement expenditures) and may also use a portion of fund balance to help finance the next year's budget (referred to as appropriated fund balance). Further, when required,<sup>1</sup> a school district is to maintain a debt service fund to account for proceeds received and expended from the fund for the payment of long-term debt principal and interest. For example, proceeds from the sale of property and unexpended money from closed capital projects on which debt is outstanding are to be transferred to the debt service fund and held until expended for related debt payments.

## Unrestricted Fund Balance Exceeded the Statutory Limit

District officials have not effectively managed fund balance. As a result, fund balance exceeded the statutory limit at the end of the past two fiscal years. Additionally, the District accounted for certain proceeds in the general fund instead of the debt service fund, which caused the general fund balance to be overstated.

According to the financial results of operations reported by the District, the unrestricted fund balance at fiscal year-end was \$1.3 million for 2014-15, \$3.2 million for 2015-16 and \$5.1 million for 2016-17. While the reported unrestricted fund balance level at June 30, 2015 was within the statutory limit, the unrestricted fund balance levels at June 30, 2016 and 2017 exceeded the statutory limit by 2.94 percentage points and 6.73 percentage points, respectively.

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<sup>1</sup> A debt service fund is required when the segregation of money to be used to redeem debt obligations is legally mandated.

**Figure 1: Unrestricted Fund Balance as Reported by the District**

	2014-15	2015-16	2016-17
<b>Total Beginning Fund Balance</b>	\$10,465,962	\$9,866,011	\$9,772,373 <sup>a</sup>
<b>Operating Surplus (Deficit)</b>	(\$599,951)	(\$62,075)	\$1,941,333
<b>Total Year-End Fund Balance</b>	\$9,866,011	\$9,803,936	\$11,713,706
<b>Less: Restricted and Assigned Funds</b>	\$7,425,635	\$5,514,954	\$5,689,310
<b>Less: Appropriated Fund Balance for the Ensuuing Year</b>	\$1,102,722	\$1,058,684	\$956,236
<b>Unrestricted Fund Balance at Year-End</b>	\$1,337,654	\$3,230,298	\$5,068,160
<b>Ensuuing Year's Budgeted Appropriations</b>	\$45,797,561	\$46,570,427	\$47,246,386
<b>Unrestricted Funds as Percentage of the Ensuuing Year's Budgeted Appropriations</b>	2.92%	6.94%	10.73%
a Prior period adjustment made to decrease total fund balance by \$31,563.			

We compared the District's budgeted revenues and appropriations with actual results of operations for the 2014-15 through 2016-17 fiscal years to determine whether the estimates were reasonable. Overall, we found the revenue and appropriation estimates were reasonable in comparison to actual revenues and expenditures. Annual variances between actual and budgeted revenues ranged from approximately 4 percent to less than 1 percent. The annual variances between expenditures and appropriations ranged from approximately 3 percent to less than 1 percent. We also analyzed the 2017-18 budget based on historical data and supporting source documents and found the estimates appeared reasonable.

Although District officials appropriated fund balance annually and realized operating deficits in 2014-15 and 2015-16, unrestricted fund balance increased during our audit period. Specifically, unrestricted funds increased by \$1.9 million from 2014-15 to 2015-16 primarily because tax certiorari claims were settled in the District's favor, allowing the District to return \$1.4 million to unrestricted fund balance in 2015-16. Similarly, reported unrestricted fund balance increased \$1.8 million from 2015-16 to 2016-17 primarily because \$1.3 million of unexpended capital project proceeds were transferred from the capital projects fund to the general fund in May 2017.

However, the District incorrectly transferred the \$1.3 million of unexpended capital proceeds to the general fund instead of a debt service fund.<sup>2</sup> Additionally, proceeds of \$160,144 from the sale of property on which the District had

<sup>2</sup> The District hired a consultant to analyze completed capital projects and close the projects. As a result of this analysis, the District transferred \$572,651 of unused proceeds from completed capital projects which had outstanding debt and \$722,232 of unused bond anticipation note (BAN) proceeds issued for the purpose of purchasing buses to the general fund.

outstanding debt were not transferred to a debt service fund. Instead, the proceeds were retained in the general fund. As a result, the general fund's result of operations and year-end fund balance figures were inaccurate. To accurately reflect the general fund's result of operation and year-end fund balance, we made the following adjustments to the general fund's financial operations:

- Revenues for 2016-17 were decreased by a total of \$1,455,027. The revenue reduction consisted of \$1,294,883 for transfers from the capital projects fund and \$160,144 from the sale of the Mariaville Elementary building with existing capital project debt. The transfers from the capital projects fund and sale proceeds should have been recorded in the debt service fund.
- The general fund's reserve for debt was decreased by \$732,795. This consists of \$572,651 from closed capital projects money that was transferred from the capital projects fund and \$160,144 from the sale of the Mariaville Elementary building. This reserve should have been accounted for in the debt service fund.

After making the adjustments, the unrestricted fund balance is still in excess of the statutory limit at the end of both the 2015-16 and 2016-17 fiscal years. The 2015-16 unrestricted fund balance is in excess of the limit by nearly 3 percentage points. Additionally, the unrestricted fund balance increased to over 5 percentage points (or approximately \$2.5 million) in excess of the limit for the following year (See Figure 2).

**Figure 2: Adjusted Results of Operations and Unrestricted Fund Balance at Year-End**

	2014-15	2015-16	2016-17
<b>Total Beginning Fund Balance</b>	\$10,465,962	\$9,866,011	\$9,772,373 <sup>a</sup>
<b>Operating Surplus (Deficit)</b>	(\$599,951)	(\$62,075)	\$486,306
<b>Total Year-End Fund Balance</b>	\$9,866,011	\$9,803,936	\$10,258,679
<b>Less: Restricted and Assigned Funds</b>	\$7,425,635	\$5,514,954	\$4,956,515
<b>Less: Appropriated Fund Balance for the Ensuing Year</b>	\$1,102,722	\$1,058,684	\$956,236
<b>Unrestricted Fund Balance at Year-End</b>	\$1,337,654	\$3,230,298	\$4,345,928
<b>Ensuing Year's Budgeted Appropriations</b>	\$45,797,561	\$46,570,427	\$47,246,386
<b>Unrestricted Funds as Percentage of the Ensuing Year's Budgeted Appropriations</b>	2.92%	6.94%	9.20%

<sup>a</sup> Prior period adjustment made to decrease total fund balance by \$31,563.

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The Board has not adopted a formal or written plan to reduce the excess fund balance. However, the Business Administrator told us that there is an informal plan to use a portion of the excess fund balance to finance the capital project to repair the transportation building roof, elementary building roof and High School/ Middle School HVAC systems scheduled to begin in 2017-18 year.

### **What Do We Recommend?**

District officials should:

1. Ensure the amount of unrestricted fund balance is in compliance with the statutory limit and develop a plan to use surplus funds as a financing source for:
  - Funding one-time expenditures.
  - Funding needed reserves.
  - Reducing District property taxes.
2. Continue to monitor the capital fund and timely close completed projects to the general fund or debt service fund.

# Appendix A: Response From District Officials



District Office  
4 Sabre Drive  
Schenectady, NY 12306  
(518) 355-9200  
FAX: (518) 355-9203

Superintendent  
of Schools  
Dr. Carol A. Pallas  
Ext. 4001

Business Office  
Joseph Lenz  
Business Administrator  
Ext. 4002

Special Education Office  
Shari Lontrato  
Director of Pupil  
Personnel Services  
Ext. 4018

High School  
1 Sabre Drive  
Schenectady, NY 12306  
(518) 355-6110  
FAX: (518) 355-8720

Middle School  
2 Sabre Drive  
Schenectady, NY 12306  
(518) 355-6255  
FAX: (518) 355-5329

Jefferson  
Elementary School  
100 Princetown Road  
Schenectady, NY 12306  
(518) 355-1342  
FAX: (518) 357-0293

Transportation Office  
401 Duanesburg Road  
Schenectady, NY 12306  
(518) 355-9200 Ext. 4201  
FAX: (518) 355-0972

Office of the NYS Comptroller  
Glens Falls Regional Office  
One Broad Street Plaza  
Glens Falls, NY 12801

March 29, 2018

Re: Audit Response and Corrective Action Plan

Schalmont Central School District  
Financial Management Condition  
2018M-15

Please be advised that the following response to the above named audit will serve as the Audit Response Letter and the Corrective Action Plan.

The Schalmont Central School District is in agreement with the Office of the State Comptroller regarding the audit findings. We responded to the audit recommendations on the following page and would like to make note that we had already started some of the corrective action process prior to the Office of the State Comptroller arriving for their fieldwork.

Please review our Corrective Action Plan and let us know if you need any additional information.

Sincerely,

Joseph C. Lenz – Business Administrator  
[jlenz@schalmont.net](mailto:jlenz@schalmont.net)





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Schalmont Central School District  
Financial Management Condition  
2018M-15

Audit Recommendation:

1. Ensure the amount of unrestricted fund balance is in compliance with the statutory limit and develop a plan to use surplus finds as a financing source for:

- Funding one time expenditures:  
With voter approval, the district is planning to appropriate an additional \$840000 of fund balance to help defray the cost of the Capital Project.
- Funding reserves:  
With voter approval, the district will implement a Capital Reserve Fund for help pay for future projects and needed capital improvements.
- Reducing District Property Taxes:  
While we will not actually reduce property taxes, we will continue to appropriate additional fund balance to keep property taxes under the tax cap limit.

The planned implementation date of the above is June 1, 2018.

Audit Recommendation:

2. Continue to monitor the capital fund and timely close completed projects to the general fund or debt service fund.
  - The district has been monitoring and will close projects as they are completed so as to not have projects carried forward as in the past.

The implementation date of the above was May 31, 2017.

Person responsible for Implementation:  
Joseph C. Lenz – Business Administrator

Signed:

\_\_\_\_\_  
Name  
Business Administrator

3/29/18  
\_\_\_\_\_  
Date

## 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, our audit procedures included the following:

- We interviewed officials to gain an understanding of the District's financial management policies and procedures and the budgeting practices.
- We analyzed the District's general fund financial records from 2014-15 through 2016-17 to determine whether unrestricted fund balance increased or declined. We also evaluated any factors contributing to the increase or decline identified.
- We reviewed the Board-adopted general fund budgets to determine whether they were realistic and structurally balanced by comparing the adopted budgets from 2014-15 through 2016-17 with actual results of operations.
- We analyzed the general fund's financial condition to determine whether during the audit period fund balance increased or was in excess of statutory limit and whether operating deficits were incurred.
- For the period 2006-07 through 2016-17, we reviewed and recalculated the District's calculations for closed capital projects and bus purchases using BANs.

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.

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

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Division of Local Government and School Accountability  
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