

South Glens Falls Central School District

Fund Balance

APRIL 2019



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

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Report Highlights

South Glens Falls Central School District

Audit Objective

Determine whether the District accurately reported fund balance and other related accounts, and whether fund balance was within the statutory limit.

Key Findings

- Unrestricted fund balance was not reported accurately because encumbrances, accrued liabilities and accounts payable were overstated.
- Recalculated unrestricted fund balance ranged between 4.8 and 8.3 percent of the ensuing years' appropriations, exceeding the 4 percent statutory limit.
- The unemployment insurance reserve was overfunded and accumulated enough funds to finance 46 years of related appropriations.

We referred our report to OSC's Division of Investigations.

Key Recommendations

- Use surplus funds to fund one-time expenditures and needed reserves or to reduce District property taxes.
- Correct accounting records for misclassifications, and accurately report unrestricted fund balance.
- Adopt a written reserve fund plan and policy that includes how the reserves will be funded, the optimal funding levels for each reserve and the conditions under which reserves will be used to finance related costs.

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

Background

The South Glens Falls Central School District (District) serves the Towns of Moreau, Northumberland and Wilton in Saratoga County. The District is governed by the Board of Education (Board) which comprises nine 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 day-to-day management of the District under the Board's direction. The Business Manager oversees the District's business operations.

Quick Facts

Enrollment	3,100
Employees	500
2017-18 Adopted Appropriations	\$57.8 million

Audit Period

July 1, 2012 – January 31, 2018

Fund Balance

How Should the District Report Fund Balance?

Fund balance represents resources remaining from prior fiscal years that can be used to finance operations in the ensuing fiscal year. A district may retain a portion of fund balance, referred to as unrestricted fund balance, for unexpected occurrences, cash flow purposes or appropriation to help fund the next year's operations. New York State Real Property Tax Law¹ currently limits unrestricted fund balance to be no more than 4 percent of the following year's appropriations. Any unrestricted fund balance over this percentage should be used to finance one-time expenditures, fund reserves or reduce the real property tax levy.

Encumbrances are commitments related to unperformed contracts for goods or services. The encumbrance account represents a commitment to expend resources. At the end of the fiscal year, encumbrances are closed to unrestricted fund balance, and then allocated among the appropriate fund balance categories of restricted, committed² or assigned for financial reporting purposes. This serves to constrain fund balance for the liability for goods and services ordered. The budget for the subsequent year is increased in a like amount to provide for the expenditures authorized in the previous year.

Accounts payable and accrued liabilities are recognized only when goods are received or services are performed. A district should accrue a liability and record expenditures in the period in which the liability was incurred. A district should only accrue liabilities and expenditures that, once incurred, normally are paid in a timely manner and in full from current financial resources.³

Districts are also legally allowed to reserve portions of fund balance to finance future costs (e.g., capital projects, retirement expenditures). A board should adopt a written reserve fund policy that indicates how the reserves will be funded, how much should be accumulated in the reserves, a plan for when the money will be used to finance related costs and when they should be replenished.

In order for district officials, taxpayers and other interested parties to determine the district's financial position, it is imperative fund balance and accounts that impact fund balance be accurately accounted for and reported.

1 New York State Real Property Tax Law Section 1318

2 Encumbrances may be closed to restricted or committed fund balance codes if the funds that are encumbered came from a restricted or committed source. If resources have not already been restricted or committed, amounts encumbered should be considered assigned for the purpose of the expected expenditure, because the outstanding purchase orders are evidence of the District's intent to spend the resources.

3 Governmental funds use the modified accrual basis of accounting that recognizes increases and decreases in financial resources only to the extent that they reflect near-term inflows and outflows of cash. Under the modified accrual basis of accounting, expenditures are recognized when the fund liability is incurred and when they are expected to draw on current spendable resources.

Finally, district officials should prepare a multiyear financial plan based on reasonable estimates that project future revenues, expenditures, reserve balance amounts and fund balance amounts. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period. Multiyear plans also help district officials to assess the merits of appropriating fund balance or establishing and using reserves to finance operations and capital needs. Any multiyear financial plan must be monitored and updated on a continuing basis.

Fund Balance Was Not Reported Accurately

District officials should improve their accounting practices to accurately report fund balance. The District reported unrestricted fund balance as being within the 4 percent statutory limit from fiscal years 2012-13 through 2016-17 (Figure 1).

Figure 1: Unrestricted Fund Balance at Year-End

	2012-13	2013-14	2014-15	2015-16	2016-17
Total Beginning Fund Balance	\$13,938,393	\$13,719,053	\$12,041,585	\$11,267,023	\$12,264,995
Add: Revenues	\$48,913,323	\$50,365,833	\$52,238,041	\$54,727,306	\$56,255,116
Less: Expenditures	\$49,132,663	\$52,043,301	\$53,012,603	\$53,729,334	\$55,040,523
Operating Surplus (Deficit)	(\$219,340)	(\$1,677,468)	(\$774,562)	\$997,972	\$1,214,593
Total Year-End Fund Balance	\$13,719,053	\$12,041,585	\$11,267,023	\$12,264,995	\$13,479,588
Less: Restricted Funds	\$8,938,278	\$8,342,447	\$7,996,443	\$8,753,477	\$9,050,633
Less: Assigned Funds	\$2,374,648	\$1,779,788	\$1,551,000	\$1,451,199	\$2,230,712
Less: Appropriated Fund Balance for the Ensuing Year	\$895,000	\$800,000	\$400,000	\$400,000	\$420,000
Total Unrestricted Funds at Year-End	\$1,511,127	\$1,119,350	\$1,319,580	\$1,660,319	\$1,778,243
Ensuing Year's Budgeted Appropriations	\$53,055,848	\$54,131,958	\$55,031,681	\$56,590,273	\$57,842,074
Unrestricted Funds as Percentage of the Ensuing Year's Budget	2.8%	2.1%	2.4%	2.9%	3.1%

While the District's unrestricted fund balance was reported as being within the legal limit for the past five years, we found the unrestricted fund balance was actually underreported during this time period. District officials also overstated

their encumbrances by at least \$1.8 million, accrued liabilities by \$988,921 and accounts payable by \$172,539 as of June 30, 2017.

The District overstated encumbrances at the end of each year, which made it appear unrestricted fund balance was lower than it actually was. The District reported encumbrances between \$1.5 million and \$2.4 million at the end of each fiscal year, for a five-year accumulated total of approximately \$9.4 million. However, a total of at least \$7.7 million of the encumbered funds was either not expended or not related to actual prior year commitments. For example, Board of Cooperative Educational Services (BOCES) service contract encumbrances were overstated each year by an average of \$576,440 (35 percent) from 2012-13 through 2016-17. These service contracts were encumbered at the beginning of each year. However, the encumbrances were not reduced for contractual changes and all services were provided. Except for amounts that should have been reported as accounts payable,⁴ these services were paid for by the end of each year. Because these encumbrances exceeded outstanding contractual obligations and did not represent unperformed commitments, they should not have been carried over to the next year. In addition, the District encumbered an average of \$656,550 from 2012-13 through 2016-17 for its monthly utility bills, which represented unfulfilled obligations for the ensuing fiscal years and not the current one.

In addition, the District reported accrued liabilities between \$235,474 and \$1.1 million at the end of each fiscal year, for a five-year accumulated total of approximately \$4.1 million. However, a total of approximately \$3.5 million did not represent costs incurred during these fiscal years, but were for future costs that would be paid for during the next fiscal year. For example, from 2012-13 through 2016-17 the District overstated accrued liabilities by an average of \$644,719 (78 percent) for health insurance costs. As a result, the District overstated its accrued liabilities and expenditures for each year. The Business Manager told us that she included these future health insurance costs because the District's external auditors found this to be an acceptable practice. However, these health insurance costs should not have been recorded as accrued liabilities because the District did not incur these liabilities in the year the accruals were recorded. The Business Manager indicated she made the external auditors aware of our concerns, and the external auditor advised they would review their recording of these costs.

Further, the District reported accounts payable between \$147,605 and \$358,663 at the end of each fiscal year, for a five-year accumulated total of \$1,092,398. However, a total of \$202,576 was incorrectly recorded as accounts payable over the past three years. This was for non-resident tuition that was never billed

⁴ The overstated BOCES encumbrances included \$197,754 that should have been reported as accounts payable. The District also reported \$40,980 in its encumbrances for other items that should have been reported as accounts payable. These amounts did not impact the unrestricted fund balance.

to the District during the 2014-15 through 2016-17 fiscal years.⁵ As a result, expenditures were also overstated and unrestricted fund balance was understated by this amount over the three years.

In addition, the District did not accurately record prepayments⁶ for health insurance premiums totaling \$570,449 during the 2014-15 fiscal year, causing expenditures to be overstated and nonspendable fund balance to be understated in 2014-15.

As a result of these errors, the District's year-ending unrestricted fund balance was understated at year end for 2012-13 through 2016-17. After making adjustments to correct the errors noted, the unrestricted fund balance exceeded the statutory limit in each of the five years. As of June 30, 2017, the unrestricted fund balance exceeded the legal limit by approximately \$2.5 million, or 4.3 percentage points (Figure 2).

5 \$2,802 in 2014-15, \$19,147 in 2015-16, and \$180,627 in 2016-17

6 Prepayments are items paid for in advance of need or use. The payments should be reflected as prepaid expenditures and offset in nonspendable fund balance on the balance sheet at year end.

Figure 2: Recalculated Unrestricted Fund Balance at Year-End

	2012-13	2013-14	2014-15	2015-16	2016-17
Total Beginning Fund Balance	\$13,938,393	\$14,496,095	\$12,811,357	\$11,966,712	\$13,081,431
Add: Prior Period Adjustment	\$47,516 ^a	\$0	\$0	\$0	\$0
Recalculated Beginning Fund Balance	\$13,985,909	\$14,496,095	\$12,811,357	\$11,966,712	\$13,081,431
Add: Recalculated Revenues	\$48,917,072	\$50,374,798	\$52,251,983	\$54,727,540	\$56,256,397
Less: Recalculated Expenditures	\$48,406,886	\$52,059,536	\$53,096,628	\$53,612,821	\$54,637,179
Recalculated Operating Surplus (Deficit)	\$510,186	(\$1,684,738)	(\$844,645)	\$1,114,719	\$1,619,218
Total Recalculated Year-End Fund Balance	\$14,496,095	\$12,811,357	\$11,966,712	\$13,081,431	\$14,700,649
Less: Restricted Funds	\$8,938,278	\$8,342,447	\$7,996,443	\$8,753,477	\$9,050,633
Less: Recalculated Nonspendable Funds	\$0	\$0	\$570,449	\$0	\$0
Less: Assigned Unappropriated Funds	\$2,374,648	\$1,779,788	\$1,551,000	\$1,451,199	\$2,230,712
Add: Unexpended and Improper Encumbrances	\$2,112,439	\$1,479,295	\$1,215,580	\$1,092,025	\$1,786,673
Less: Appropriated Fund Balance	\$895,000	\$800,000	\$400,000	\$400,000	\$420,000
Total Recalculated Unrestricted Funds	\$4,400,608	\$3,368,417	\$2,664,400	\$3,568,780	\$4,785,977
Ensuing Year's Budgeted Appropriations	\$53,055,848	\$54,131,958	\$55,031,681	\$56,590,273	\$57,842,074
Recalculated Unrestricted Funds as Percentage of the Ensuing Year's Budget	8.3%	6.2%	4.8%	6.3%	8.3%

^a Adjustment for the net unrecorded revenues and expenditures related to hall of fame and advanced placement classes.

By overstating encumbrances, expenditures, accrued liabilities and accounts payable, District officials understated unrestricted fund balance, withheld nearly \$3 million of fund balance from productive use, exceeded the statutory limit on how much fund balance it can retain at year end and reduced the transparency of District finances. We have referred our report to OSC's Division of Investigations for further review.

The Board Has Not Adopted Adequate Reserve and Multiyear Financial Plans

As of June 30, 2017, the District reported six general fund reserves⁷ with balances totaling approximately \$9.1 million. This includes an unemployment insurance reserve that had a balance of nearly \$1.2 million as of June 30, 2017. We found that this reserve was overfunded and had enough to pay for over 46⁸ years of related appropriations. Had the Board developed a written reserve fund plan and policy that describes a maximum funding level and the planned use of the District's reserves, it might have kept this reserve balance from exceeding the amount necessary to address long-term obligations or planned expenditures.⁹ The Business Manager told us District officials plan to use excess funds from the unemployment reserve and unrestricted fund balance to fund the capital reserve, which they planned to re-establish in May 2018 (subject to voter approval).

In addition, the Board has not adopted a multiyear financial plan that projects revenue, expenditures and fund balance levels, and addresses the District's long-term financial and capital needs. The Business Manager prepared a multiyear financial projection each year. However, it was not approved by the Board. The Business Manager stated that this projection is referenced during budget preparation and mostly used to analyze current financial trends and the potential effects of changes to the ensuing year's budget. Although this projection predicted a significant financial decline over the next five years, it was not supplemented by a fiscal improvement plan describing how the District will increase revenues and/or reduce expenditures to maintain financial stability. As a result, this projection is not an adequate plan to address the District's long-term financial and capital needs.

The lack of a Board-adopted multiyear financial plan limits the ability of the Board and District officials to effectively manage District finances and address future operating and capital needs. Further, the lack of a reserve fund plan and policy resulted in the unemployment reserve balance significantly exceeding the amount necessary to finance future expenditures.

⁷ Workers' compensation, retirement contribution, unemployment insurance, tax certiorari, capital and employee benefit accrued liability

⁸ Average appropriations during our audit period totaled \$25,135.

⁹ Prior to the end of each fiscal year the Business Manager provides the Board with the current year reserve balances, anticipated use for the current fiscal year and recommendations for increasing or reallocating balances to project the beginning balance for the next fiscal year.

What Do We Recommend?

District officials should:

1. Properly account for encumbrances, accrued liabilities, accounts payable and prepaid expenditures at the end of the fiscal year.
2. Correct the District's accounting records for the misclassification of encumbrances, accrued liabilities, accounts payable and prepaid expenditures to accurately report the District's unrestricted fund balance.
3. Use surplus fund balance in a manner that benefits taxpayers. Such uses could include, but are not limited to:
 - Funding one-time expenditures;
 - Funding needed reserves; and
 - Reducing District property taxes.

The Board should:

4. Adopt a comprehensive multiyear financial plan to provide a framework for future budgets and guide the District's management of financial condition. The plan should be periodically reviewed and updated as appropriate.
5. Adopt a written reserve fund plan and policy that includes how the reserves will be funded, the optimal funding levels for each reserve and the conditions under which reserves will be used to finance related costs.

Appendix A: Response From District Officials



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SOUTH GLENS FALLS CENTRAL SCHOOL DISTRICT

March 22, 2019

Office of the State Comptroller
Attn: Jeffrey P. Leonard, Chief Examiner
Glens Falls Regional Office
One Broad Street Plaza
Glens Falls, NY 12801-4396

RE: South Glens Falls Central School District Response and Corrective Action Plan to New York State Comptroller "Fund Balance Report of Examination" Audit 2018M-090

Dear Mr. Leonard:

Please accept the following as a combined written response to the above listed audit report and Corrective Action Plan. Key findings of the report included the following: unrestricted fund balance was not reported accurately because encumbrances, accrued liabilities and accounts payable were overstated and unemployment insurance reserve was overfunded.

The district had long-term accounting practices of paying for July and August health insurance during the previous school year, encumbering lease purchases and utilities. These accounting practices were recommended by our external auditor and were in place for many years. These long-term accounting procedures were immediately discontinued by the district when brought to our attention by the auditor during fieldwork.

OSC Audit Recommendation #1

Properly account for encumbrances, accrued liabilities, accounts payable and prepaid expenditures at the end of the fiscal year.

District Action

During the auditor's fieldwork, the District immediately discontinued the long-term accounting practices of accruing, encumbering or prepaying health insurance, utilities and WSWHE BOCES lease purchases for the 2017-18 school year and subsequent years.

6 Bluebird Road, South Glens Falls, NY 12803 Phone: (518) 793-9617 Fax: (518) 761-0723 www.sgfcsd.org

OSC Audit Recommendation #2

Correct the District’s accounting records for the misclassification of encumbrances, accrued liabilities, accounts payable and prepaid expenditures to accurately report the District’s unrestricted fund balance.

District Action

As stated above, during the auditor’s fieldwork the District immediately discontinued the long-term accounting practices of accruing, encumbering or prepaying health insurance, utilities and WSWHE BOCES lease purchases for the 2017-18 school year and subsequent years.

OSC Audit Recommendation #3

Use surplus fund balance in a manner that benefits taxpayer. Such uses could include, but are not limited to: funding one-time expenditures; funding needed reserves; and reducing District property taxes.

District Action

The district received voter approval in May 2018 to establish a Capital Reserve fund up to \$10 million dollars. Unemployment reserve funds, other reserves and fund balance were reallocated in the amount of \$2.1 million to the Capital Fund Reserve in May 2018 by the Board of Education as part of the annual reserve and fund balance review.

OSC Audit Recommendation #4

Adopt a comprehensive, multi-year financial plan to provide a framework for future budgets and guide the District’s management of financial condition. The plan should be periodically reviewed and updated appropriately.

District Action

The District has had a comprehensive, multi-year financial plan that uses the NYS Comptroller’s Office model for several years. To supplement the planning process, the District has purchased additional software resources to improve long-term planning. The Board of Education formally adopted the “Comprehensive, Multi-Year Financial Plan” at the January 14, 2019 Board of Education meeting. The District will update the document periodically and the Board of Education will review it and adopt it annually.

See Note 1 Page 12

OSC Audit Recommendation #5

Adopt a written reserve fund plan and policy that includes how the reserves will be funded, the optimal funding levels for each reserve and the condition under which reserves will be used to finance related costs.

District Action

As noted in OSC Audit footnote 9, prior to the end of each school year, the District and the Board of Education review current year reserve balances, anticipated use for the current year and recommendations for increasing or reallocating balances for the next fiscal year. At the May 21, 2018 meeting, the Board of Education formally adopted the written reserve fund plan and policy including funding, optimal funding, levels and planned future reserve use and will continue the practice of the annual adoption in subsequent years.

South Glens Falls Central School District thanks the auditors from the New York State Comptroller's Office for their thorough audit and professionalism.

Sincerely,

Kristine Orr
Superintendent of Schools

Audrey P. Varney
Business Manager

Cc: South Glens Falls Central School Board of Education
Tammi Edwards, Treasurer

Appendix B: OSC Comment on the District's Response

Note 1

We acknowledge the Business Manager prepared a multiyear financial projection each year. However, this projection predicted a significant financial decline over the next five years, but it was not supplemented by a fiscal improvement plan¹⁰ describing how the District will increase revenues and/or reduce expenditures to maintain financial stability.

¹⁰ Our Office's Multiyear Financial Planning Local Government Management Guide (<https://www.osc.state.ny.us/localgov/pubs/lmgm/multiyear.pdf>) addresses the addition of a fiscal improvement plan when shortfalls are revealed.

Appendix C: 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 to gain an understanding of the District's financial management policies and procedures and to determine whether the Board adopted multiyear financial plans and a reserve fund policy.
- We analyzed 2012-13 through 2016-17 general fund results of operations and changes in fund balance and reserves and use of appropriated fund balance. We evaluated fund balance to determine whether it was in excess of the statutory limit.
- We obtained the year-end encumbrances as of June 30 of each year, from 2012-13 through 2016-17 and the cash disbursements for July 1, 2012 through January 31, 2018. We compared both reports to determine whether encumbered purchase orders of \$10,000 or more were paid in full as of January 31, 2018.
- We reviewed the District's June 30 trial balances from 2012-13 through 2016-17 and selected a judgmental sample based on largest dollar amounts of five accounts, including liabilities, assets, encumbrances, revenues and expenditures, and traced the balances to supporting documentation to verify accuracy and existence and recalculate unrestricted fund balance.

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 D: 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

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

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