



Saratoga Springs City School District Fund Balance

Report of Examination

Period Covered:

July 1, 2012 – June 30, 2015

2016M-99



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 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 Saratoga Springs City 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 recommendation 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 Saratoga Springs City School District (District) is located in the City of Saratoga Springs and portions of the Towns of Greenfield, Malta, Milton, Saratoga and Wilton in Saratoga County. The District is governed by the Board of Education (Board), which is composed of 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 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 eight schools with approximately 6,375 students and 1,100 employees. The District's general fund appropriations for the 2015-16 fiscal year were approximately \$117 million, funded primarily with State aid, real property taxes and grants.

Objective

The objective of our audit was to assess the District's fund balance. More specifically, our audit addressed the following related question:

- Did the District maintain its fund balance level in accordance with statutory requirements?

Scope and Methodology

We evaluated the District's fund balance for the period July 1, 2012 through June 30, 2015.

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 recommendation 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 recommendation and 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 is responsible for making sound financial decisions that are in the best interests of the District, the students it serves and the taxpayers who fund the District's programs and operations. It is essential that officials develop long-term plans and manage fund balance responsibly to ensure that sufficient funding will be available to sustain operations, address unexpected occurrences and satisfy long-term obligations or future expenditures. Fund balance represents moneys remaining from prior fiscal years that can be used to finance the next year's budget, set aside in reserve funds for specific purposes, or both. According to New York State Real Property Tax Law (Real Property Tax Law), the Board 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. The establishment of reserve funds serves to restrict a portion of fund balance for a specific purpose, but must be done in compliance with statutory requirements.

The District's reported unrestricted fund balance for the past three years was understated because the District incorrectly restricted funds for the future payments of other post-employment benefits (OPEB). With the inclusion of the incorrectly restricted funds, the unrestricted fund balance was in excess of the 4 percent statutory limit for the 2012-13, 2013-14 and 2014-15 fiscal years. The Assistant Superintendent of Business stated the Board wanted to partially fund the District's future OPEB. However, there is no legal authority for the District to fund its OPEB. During our audit period, the District allocated \$7.1, \$8.7 and \$9.8 million at the end of the 2012-13, 2013-14 and 2014-15 fiscal years, respectively, to partially fund² its OPEB liability.

We recalculated the District's unrestricted fund balance for the fiscal years ending June 30, 2013 through June 30, 2015 by adding back the amounts the District had restricted for its OPEB liability. As of June 30, 2013, the District's recalculated unrestricted fund balance totaled \$11.6 million and was 10.3 percent of the 2013-14 appropriations, exceeding the statutory limit by more than \$7.1 million. As of June 30, 2014 and 2015 the recalculated unrestricted fund balance amounts were \$13.4 and \$14.5 million, which were 11.5 and 12.4 percent of the ensuing years' appropriations and exceeded the statutory limits by more than \$8.7 and \$9.8 million, respectively.

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, amounts reserved for tax reduction and encumbrances included in committed and assigned fund balance.

² The average OPEB liability for these three years was \$34.7 million.

Figure 1: Unrestricted Fund Balance at Year-End			
	2012-13	2013-14	2014-15
Total Beginning Fund Balance	\$44,216,445	\$46,275,602	\$48,917,484
Prior Period Adjustments	\$967,357 ^a	\$1,657,848 ^b	\$0
Add: Operating Surplus/(Deficit)	\$1,091,800	\$984,034	(\$3,071,678)
Total Ending Fund Balance	\$46,275,602	\$48,917,484	\$45,845,806
Less: Restricted Funds	\$32,182,945	\$33,413,962	\$33,130,908
Less: Reserve for Tax Reduction	\$783,833	\$522,556	\$261,279
Less: Encumbrances	\$653,118	\$740,777	\$578,072
Less: Appropriated Fund Balance for the Ensuing Year	\$8,149,325	\$9,561,896	\$7,170,456
Total Unrestricted Funds at Year-End Reported by District	\$4,506,381	\$4,678,293	\$4,705,091
Adjusted Unrestricted Fund Balance at Year-End ^c	\$11,606,913	\$13,380,161	\$14,540,735
Ensuing Year's Budgeted Appropriations	\$112,602,543	\$116,438,658	\$117,111,453
Unrestricted Funds as Percentage of Ensuing Year's Budget	10.3%	11.5%	12.4%

^a Contains a prior period adjustment to increase fund balance in the amount of \$1,080,828 to record the residual equity transfer for a closed capital project and a prior period adjustment of \$113,471 to decrease fund balance for a reclassification of summer transportation costs reporting for students with disabilities.

^b Contains a prior period adjustment to increase fund balance in the amount of \$1,657,848 to record the residual equity transfer for busses purchased.

^c Reclassified the funds that were restricted for OPEB by the District to its unrestricted fund balance in the amounts of \$7,100,532, \$8,701,868 and \$9,835,644 for fiscal years 2012-13, 2013-14 and 2014-15, respectively.

District officials restricted moneys to fund a portion of its future OPEB liability. However, the District does not have the legal authority for such a restriction, which resulted in the District maintaining excessive levels of fund balance.

Recommendation

1. District officials should discontinue the practice of restricting a portion of its fund balance for its future OPEB liability to ensure the amount of the unrestricted fund balance is in compliance with the Real Property Tax Law limit.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

SARATOGA SPRINGS CITY SCHOOL DISTRICT
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May 27, 2016

Office of the State Comptroller
110 State Street
Albany, NY 12236

In response to NYS OSC report number 2016M-99, the Saratoga Springs City School District offers the following management comments:

Scope of Audit

The District began working with representatives of the NYS Office of the State Comptroller (OSC) on this audit several months in advance of the date of this report. OSC staff indicated that there were no pre-determined audit objectives or intended scope of work, and that all aspects of the District's finances were subject to this audit. Over a period of approximately two months, OSC staff were in district testing and analyzing financial records and, in the absence of any additional findings, concluded that the only audit finding was related to fund balance.

District personnel spent considerable amounts of time providing supporting documents and assisting with the analytical testing process. OSC reps commended District staff verbally for their outstanding compliance during the audit and remarked on the lack of audit findings, but indicated that no written commentary to such effect would appear elsewhere in this report. We feel that readers of this report ought to be fully informed in their understanding of the process and the claims made herein. It is also our belief that the report would otherwise be incomplete without mention of the efforts from those employees involved in the process.

Reclassified for OPEB

The District recognizes the opinion of OSC regarding the reclassification of funds reserved for future years' OPEB liabilities. The District will discontinue the practice of restricting fund balance to account for OPEB liabilities until such time as proposed legislation is enacted.

Tax Certiorari

Due to the size and diversity of the District, in addition to its strong commercial base, a vital component of the financial stability for the District is its Tax Certiorari Reserve. In order to maintain compliance with the legal requirements set forth by OSC, the District must make adjustments to the reserve at year end to reflect the actual or estimated liability on active Tax Certiorari claims. These adjustments have a direct impact on the amounts shown in Unrestricted Fund Balance.

“VISION 2018: Our Plan for Their Future”

This reserve increased by \$1,891,253 between years 1 and 2 of this report, and was adjusted down again by \$712,396 between years 2 and 3 of this report, for a net change of \$1,178,857 (or 1.01% of Unrestricted Fund Balance) over the period covered in this report. It is our opinion that readers of this audit would benefit greatly from understanding these (and other) variables contributing to the financial outcomes described throughout the report.

Pro-active Measures

In attempt to address any excess amounts in Unrestricted Fund Balance, voters of the District were asked to approve the creation and funding of a Capital Reserve in May of 2015. To date, the approved Capital Reserve is funded at \$8M and is expected to be completely funded to \$10M during the upcoming 2016-17 fiscal year.

Additionally, at the end of the period covered by this report, the District had \$5.9M (or 5.02%) of fund balance committed for the subsequent year’s budget. It is the intent of the District to continue to appropriate fund balance as a means of supporting the budget to keep the Unrestricted Fund Balance within the amounts limited by RPL 1318. The amount appropriated for fiscal year 2016-17 is \$4.4M and is expected to be approximately \$5.8M at the end of fiscal year 2016-17 for the 2017-18 budget. The District has also reduced its commitment of Retirement Contribution Reserve funds for the 2016-17 budget by over \$500K in an attempt to reduce the amount of Unrestricted Fund Balance in subsequent years.

Respectfully Submitted,

Tim M. Hilker
Assistant Superintendent for Business
Saratoga Springs City School District

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials to gain an understanding of the District’s financial management policies and procedures. This included inquiries about the District’s budgeting practices and the development of plans to maintain the District’s fiscal stability and fund balance. We also interviewed District officials to determine whether they were aware of excessive fund balances for the general fund.
- We reviewed the last three years of financial data and budgets to document restricted and unrestricted fund balance levels, determine the operating results of the District and determine if budget estimates were reasonable.
- We reviewed the District’s tax levy and budget documents provided by District officials to support the tax levy calculations.

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.

APPENDIX C

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