



Greater Amsterdam School District Financial Condition

Report of Examination

Period Covered:

July 1, 2012 – December 31, 2015

2016M-110



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 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 Greater Amsterdam School District, entitled Financial Condition. 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 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 Greater Amsterdam School District (District) is located in the City of Amsterdam, Town of Amsterdam and portions of the Towns of Florida and Mohawk in Montgomery County, a portion of the Town of Perth in Fulton County, portions of the Towns of Duanesburg and Glenville in Schenectady County, and a portion of the Town of Charlton in Saratoga County. The District is governed by the Board of Education (Board) which is composed of seven 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 six schools with approximately 3,800 students and 600 employees. The District's total budgeted appropriations for the 2015-16 fiscal year were \$65 million, which were funded primarily with State aid, real property taxes and grants.

The District began to experience fiscal stress during the 1999-2000 fiscal year and reported a general fund deficit in the 1999-2000 and 2000-2001 fiscal years. As a result, Chapter 118 of the Laws of 2001 was enacted authorizing the District to issue debt totaling \$6 million to liquidate the accumulated deficit in the District's general fund as of June 30, 2001. This debt was redeemed over a 10-year period with the final debt payment being made during the 2012-13 fiscal year.

Objective

The objective of our audit was to review the District's financial condition. Our audit addressed the following related question:

- Did the Board adopt realistic budgets and properly manage the District's fund balance and reserves?

Scope and Methodology

We examined the District's financial activities for the period July 1, 2012 through December 31, 2015. We extended our scope forward to April 30, 2016 to analyze the District's 2015-16 revenues and expenditures.

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 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 recommendations and have initiated, or 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.

Financial Condition

The Board is responsible for making sound financial decisions that are in the best interests of the District, the students it serves and the residents who fund the District's programs and operations. In preparing the annual budget, the Board must estimate revenues (e.g., State aid), appropriations and the amount of unrestricted funds that will be available at the end of the fiscal year, which may be used for the ensuing year's appropriations and to balance the budget. Reasonable fund balance management helps ensure that sufficient funding will be available to sustain operations, address unexpected occurrences and satisfy long-term obligations or future expenditures, and that residents are not unduly burdened by unnecessary or excessive tax levies. A district may retain a portion of fund balance but must do so within the limits established by New York State Real Property Tax Law (RPTL). Currently, RPTL limits the amount of fund balance a school district can retain to no more than 4 percent of the ensuing year's budget.¹

Prudent fiscal management also includes maintaining sufficient balances in reserves to address long-term obligations or planned future expenditures. In doing so, District officials should adopt a policy governing the use of reserve funds and ensure that residents are fully informed of all reserve funding activity.

The Board consistently developed and adopted realistic budget estimates but did not properly manage the District's fund balance and reserves. The District realized operating surpluses in the fiscal years 2012-13 through 2014-15 totaling \$7.7 million, which led to an increase in the District's level of unassigned fund balance that exceeded the levels permitted by law at the end of the 2013-14 and 2014-15 fiscal years. Furthermore, the District did not develop a multiyear financial plan or any other long-term plan to manage its fund balance and reserves. Without a multiyear financial plan, the District was not prepared to manage the excess fund balance. As a result, District officials missed the opportunity to effectively manage their fund balance, further reduce the tax levy and increase the transparency of the budgeting process.

¹ Fund balance subject to RPTL is unrestricted fund balance minus appropriated fund balance, amounts reserved for insurance recovery, amounts reserved for tax reduction, and encumbrances included in committed and assigned fund balance.

Budgeting

The Board is responsible for preparing and adopting reasonable budgets based on historical or known trends for expenditures and revenues, current and future operating needs and other relevant information. In preparing the budget, District officials should use the most current and accurate information available to ensure that budgetary estimates are reasonable. Because the budgeting process ultimately determines the District's expected tax levy amount, accurate estimates are imperative to help ensure real property taxes levied are not greater than necessary.

The District's 2012-13 through 2014-15 adopted budgets contained revenue estimates that were close to the actual revenues received and varied from actual revenues by only 1 percent or less each year. Appropriations varied from actual expenditures slightly more than the revenues over the past three years, by 2.8 percent, 5.3 percent, and 5.4 percent, respectively. We recognize the overall variance between appropriations and expenditures is not significant in any particular year. However, the consistent practice of incurring expenditures for amounts less than appropriations led to a total of approximately \$8.4 million of overestimated appropriations from fiscal years 2012-13 through 2014-15, as shown in Figure 1.

Figure 1: Overestimated Appropriations

	2012-13	2013-14	2014-15	Total
Appropriations	\$58,328,424	\$63,407,480	\$63,918,906	\$185,654,810
Actual Expenditures	\$56,709,940	\$60,049,935	\$60,475,498	\$177,235,373
Variance	\$1,618,484	\$3,357,545	\$3,443,408	\$8,419,437
Percentage	2.8%	5.3%	5.4%	4.5%

The District expended less than budgeted, in part because the Board adopted budgets with conservative estimates for certain appropriations. For example, contract transportation appropriations were between \$3.1 and \$3.2 million from 2012-13 through 2014-15, and the District expended between \$363,000 and \$396,000 (between 12 and 13 percent) less than appropriated in each of the three years. Similarly, appropriations for utilities were between \$1.1 and \$1.2 million from 2012-13 through 2014-15, and actual expenditures were between \$103,000 and \$398,000 (between 10 and 32 percent) less than appropriations. Additionally, the District expended less than planned due to unanticipated circumstances. For example, in 2012-13 the District appropriated \$8.6 million for health insurance. However the District enrolled in a new health insurance plan during the fiscal year and as a result, actual expenditures were \$7.3 million, or \$1.3 million (or 15 percent) less than planned.

In the 2015-16 budget, the Board adopted more reasonable estimates for contract transportation, utilities and health insurance. Based on the District's revenues and expenditures as of April 30, 2016 and historical trends, we project the District's revenues will again be in line with the amounts budgeted and expenditures will likely be closer to, but still less, than the amounts appropriated for 2015-16. As a result, we anticipate the District will realize a small operating surplus in 2015-16, which will further increase the District's unrestricted funds. The District's consistent practice of adopting budgets with conservative estimates for appropriations has led to the accumulation of excess fund balance.

Fund Balance and Reserves

Fund balance represents resources remaining from prior fiscal years. Fund balance in excess of the statutory 4 percent limit can be used to fund one-time expenditures, pay down existing debt or reduce real property taxes or can be transferred to reserve funds. When District officials establish reserve funds, it is important they develop a plan for funding the reserves, determining how much should be accumulated and how and when the funds will be used to finance related costs. Such a plan should guide the Board in accumulating and using reserve funds and would help inform District residents about how their tax dollars will be used. In addition, the Board should review the District's reserves at least annually and fund them through budgetary appropriations that are voted on by residents to help ensure the amounts reserved are necessary and provide transparency to the residents.

The District consistently appropriates fund balance to partially finance the subsequent year's appropriations. When fund balance is appropriated, there is an implication the Board is budgeting for a "planned" operating deficit.² However, the District realized operating surpluses for the last three completed fiscal years and did not use any of the \$1.1 million total of fund balance that was appropriated during the three years. Over the three-year period, the operating surpluses totaled \$7.7 million and were mainly attributable to the District's practice of adopting budgets with conservative estimates. As a result, the unrestricted fund balance, which was within the statutory limit as of June 30, 2013, increased from \$2.1 million to \$6.7 over the past two years and was 8.2 percent and 10.3 percent of ensuring year appropriations as of June 30, 2014 and June 30, 2015, respectively, which were in excess of the 4 percent statutory limit.

² When fund balance is appropriated to finance operations, total estimated revenues will be less than the total appropriations in the budget; thus, an operating deficit will occur if the actual revenues and expenditures are in line with the budgetary estimates.

Figure 2: Unrestricted Fund Balance at Year-End

	2012-13	2013-14	2014-15
Total Beginning Fund Balance	\$3,406,772	\$3,745,434	\$6,574,090
Add: Operating Surplus	\$338,662	\$2,828,656	\$4,561,190
Total Ending Fund Balance	\$3,745,434	\$6,574,090	\$11,135,280
Less: Restricted Funds	\$838,361	\$838,361	\$3,197,030
Less: Encumbrances	\$249,673	\$286,181	\$950,980 ^a
Less: Appropriated Fund Balance for the Ensuing Year	\$552,843	\$227,412	\$273,457
Total Unrestricted Funds at Year-End	\$2,104,557	\$5,222,136	\$6,713,813
Ensuing Year's Budgeted Appropriations	\$63,407,480	\$63,918,906	\$65,087,332
Unrestricted Funds as Percentage of Ensuing Year's Budget	3.3%	8.2%	10.3%

^a The 2014-15 encumbrance balance included an encumbrance for \$650,332 for health insurance that was not required and will be written off in 2015-16. If these funds had not been encumbered, they would have been included in unrestricted funds as of June 30, 2015 and would have increased 2014-15 unrestricted funds as a percentage of the ensuing year's budget to 11.3 percent.

Historically, the District did not establish and fund reserves mainly due to the District's fiscal stress in prior years. However, after realizing operating surpluses in the last three years, the District began to fund reserves. Although the District does not have a formal multiyear reserve plan, the Business Manager prepared an annual report of the District's reserves that contained the reserves' balances as of the previous year-end and a recommended balance for the current fiscal year end.³ These annual reports did not contain long-term reserve plans or include recommendations for the creation or funding of additional reserves. Additionally, while the Business Manager submitted the reports to the Board for review, the Board did not take action to approve the reports.

The District has three reserve funds totaling almost \$3.2 million as of June 30, 2015: a retirement contribution reserve, an employee benefit accrued liability reserve (EBALR) and a tax certiorari reserve. The retirement contribution reserve was established in 2014-15 and the District included a \$603,669 appropriation in the 2014-15 budget to fund the reserve. However, after the District realized a \$4.6 million surplus in 2014-15, the District transferred an additional \$1.5 million of excess fund balance to the retirement reserve in 2014-15 to fully fund the reserve in accordance with the District's plan for the reserve.⁴

³ The Business Manager based current year funding recommendations on the current funding level, planned funding level and estimated amount of fund balance available to fund the reserves.

⁴ The District planned to fund this reserve with the cost of three years of retirement contributions. The Business Manager calculated the funding level using the average of the past three years of actual retirement expenditures.

Additionally, the EBALR was funded with an additional \$250,000 in June 2015 from the surplus fund balance, bringing its balance to approximately \$1 million as of June 30, 2015. According to the annual report prepared by the Business Manager, the EBALR should be funded at 100 percent of the accrued liability for unused accumulated leave time, which exceeded \$3 million as of June 30, 2015. The District's tax certiorari reserve was fully funded from 2012-13 through 2014-15 based on the Business Manager's recommendation.

	Fiscal Year End 6/30/13	Fiscal Year End 6/30/14	Fiscal Year End 6/30/15
Reserve for Retirement Contributions	\$0	\$0	\$2,108,669
Employee Benefit Accrued Liability Reserve	\$776,160	\$776,160	\$1,026,160
Reserve for Tax Certiorari	\$62,201	\$62,201	\$62,210
Total	\$838,361	\$838,361	\$3,197,039

While we commend the District for their recovery from a period of fiscal stress, the District's consistently conservative budgetary estimates resulted in the District accumulating excess fund balance as of June 30, 2014 and June 30, 2015, and District officials did not establish an adequate plan to use the fund balance to reduce taxes, fund one-time expenditures, pay down existing debt or fund reserves. Although the District reduced taxes from 2013-14 to 2014-15 (by 4 percent) and established and funded the retirement contribution reserve in 2014-15, fund balance remained in excess of the 4 percent statutory limit for 2013-14 and 2014-15. As a result, the District missed an opportunity to further reduce the tax levy, establish reserves or both.

Multiyear Financial Planning

Multiyear financial planning is a tool that school districts can use to improve the budget development process. Planning on a multiyear basis will enable District officials to identify developing revenue and expenditure trends, establish long-term priorities and goals and consider the impact of current budgeting decisions on future fiscal years. It also allows District officials to assess the merits of alternative approaches such as using unrestricted fund balance or establishing and using reserves to finance its operations. Any long-term financial plan should 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.

The Board and District officials did not develop a multiyear financial plan to address the use of restricted and unrestricted fund balance. Had District officials used multiyear financial planning, they would have had a valuable tool that would have helped them make more informed financial decisions, which may have prevented the accumulation of unrestricted fund balance beyond the legal limit.

Recommendations

The Board should:

1. Maintain levels of general fund unrestricted fund balance within the legal limit and reduce the amount of excess fund balance in a manner that benefits District residents. Such uses could include, but are not limited to, using surplus funds as a financing source, funding one-time expenditures or funding appropriate reserves.
2. Develop a comprehensive multiyear financial plan to establish objectives for funding long-term needs.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

The Greater Amsterdam School District

Thomas F. Perillo, Superintendent of Schools

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June 1, 2016

Mr. Jeffrey P. Leonard, Chief Examiner
NYS Office of the State Comptroller
Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls, NY 12801-4396

RE: Greater Amsterdam School District
Draft Report of Examination, July 1, 2012 – December 31, 2015

Dear Mr. Leonard,

The Board of Education and the Superintendent of Schools of the Amsterdam City School District are in receipt of the draft copy of your Report of Examination on the Financial Condition for the period beginning July 1, 2012 and ending December 31, 2015 and the recommendations contained therein. Please allow this letter to serve as our written and corrective action response.

We have reviewed the findings contained in the Draft Audit Report and agree and accept the findings, conclusions, and recommendations made within this Report.

As a public school district entrusted with making sound financial decisions on behalf of our resident taxpayers, we take our fiduciary responsibilities seriously and shall be taking necessary steps to remedy the issues of concern as outlined in the Report.

We appreciate the professionalism of the auditors who worked with the Amsterdam City School District in making this Report. They were a pleasure to work with throughout the review and feedback process.

Corrective Action Plan

Audit recommendation:

Maintain levels of general fund unrestricted fund balance within the legal limit and reduce the amount of excess fund balance in a manner that benefits District residents. Such uses could

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Where students succeed and community cares.

include, but are not limited to, using surplus funds as a financing source, funding one-time expenditures or funding appropriate reserves.

Implementation Plan of Action:

The Board and District officials will be reviewing the options suggested and develop a multiyear reserve plan to use the surplus funds that provides the greatest benefits to the District residents.

Implementation Date:

The planned implementation date is June 30, 2017.

Audit recommendation:

Develop a comprehensive multiyear financial plan to establish objectives for funding long-term needs.

Implementation Plan of Action:

District officials will be reviewing a comprehensive multiyear financial plan with the Board over the next few months. This will allow the Board and District officials a plan to address the use of restricted and unrestricted fund balance.

Implementation Date:

The planned implementation date is December 31, 2016.

Sincerely,

Thomas F. Perillo
Superintendent of Schools

C: Board of Education
Kim Brumley, Business Mgr.

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To accomplish our audit objective and obtain valid audit evidence, our procedures included the following:

- We interviewed officials to gain an understanding of the District's budgeting process.
- We reviewed the results of operations and analyzed changes in fund balance for the general fund for the period July 1, 2012 through December 31, 2015.
- We compared the adopted budgets to the modified budgets and actual operating results to determine if the budget assumptions were reasonable.
- We reviewed expenditures based on the District's budget categories to identify significant expenditures and analyze trends.
- We tested the reliability of the accounting records by reviewing bank reconciliations and compared them to the annual financial report filed with the Office of the State Comptroller and to the District's independently audited financial statements.
- We reviewed budget and revenue status reports.
- We reviewed Board minutes and resolutions to verify the establishment of reserve funds.
- We reviewed the reserve balances for reasonableness.
- We reviewed the District's annual reserve report for reasonableness.

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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