

# Fort Ann Central School District

## Fund Balance Management

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OCTOBER 2018

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

# Contents

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- Report Highlights . . . . . 1**
  
- Fund Balance Management . . . . . 2**
  - What Is Effective Fund Balance Management? . . . . . 2
  - Unrestricted Fund Balance Exceeded the Statutory Limit . . . . . 2
  - What Do We Recommend? . . . . . 4
  
- Appendix A – Response From District Officials . . . . . 6**
  
- Appendix B – Audit Methodology and Standards . . . . . 7**
  
- Appendix C – Resources and Services . . . . . 8**

# Report Highlights

## Fort Ann Central School District

### Audit Objective

Determine if officials effectively managed the District's general fund balance.

### Key Findings

- The District's unrestricted fund balance at the end of 2016-17 was almost \$1.83 million or 15.25 percent of the ensuing year's budgeted appropriations, exceeding the statutory limit by 11.25 percentage points.
- The budgets overestimated appropriations by more than \$2.03 million or 6 percent from 2015-16 through 2017-18.

### Key Recommendations

- Ensure that the District's fund balance is in compliance with statutory limits and use surplus funds as a financing source to fund one-time expenditures and needed reserves or reduce District property taxes.
- Adopt realistic annual budgets based on historical or other known trends.

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

### Background

The Fort Ann Central School District (District) serves the Towns of Fort Ann, Kingsbury, Hartford and Granville in Washington County.

The District is governed by a Board of Education (Board) which has 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 (Superintendent) is responsible for the District's day-to-day management. The Superintendent is also responsible for budget development and administration, and is assisted by the Business Official with these responsibilities.

#### Quick Facts

Employees	105
Enrollment	494
2017-18 Appropriations	\$11.9 million

### Audit Period

July 1, 2015 – June 30, 2018

# Fund Balance Management

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## What Is Effective Fund Balance Management?

To effectively manage a district's fund balance, a board must adopt realistic and structurally balanced budgets based on historical data or known trends, in which recurring revenues finance recurring expenditures and reasonable levels of fund balance are maintained. A district may retain a portion of fund balance, referred to as unrestricted fund balance.

District officials should ensure that unrestricted fund balance does not exceed the amount allowed by New York State (NYS) Real Property Tax Law (RPTL) Section 1318, which limits unrestricted fund balance to no more than 4 percent of the following year's appropriations. Any unrestricted fund balance over this percentage must be used to reduce the real property tax levy by appropriating fund balance to lower the unrestricted fund balance. When fund balance is appropriated to finance operations, the District is budgeting for a 'planned operating deficit' equal to the amount of the appropriated fund balance.

## Unrestricted Fund Balance Exceeded the Statutory Limit

District officials need to improve budgeting practices to more effectively manage the general fund balance. The District has accumulated unrestricted fund balance of more than \$1.8 million as of June 30, 2017, or 15.25 percent of the 2017-18 budgeted appropriations and exceeded the statutory limit by 11.25 percentage points. While District officials appropriated fund balance annually to finance operations, none of the appropriated fund balance was used to finance operations for the 2015-16 through 2017-18 school years.

For 2017-18, District officials appropriated \$338,123 of fund balance to finance operations. However, the District is projected to realize an operating surplus of approximately \$70,590. During 2017-18, officials transferred \$200,000 of unrestricted fund balance to the capital fund for an upcoming capital project that was not included in the original budget. Officials also used \$203,090 of unrestricted fund balance for an emergency power transformer replacement which was also not included in the original budget. Without the \$200,000 transfer and the \$203,090 expenditure, the District's 2017-18 operating surplus would be approximately \$473,680 and unrestricted fund balance would increase to approximately \$2 million or more than 18 percent of the next year's budgeted appropriations.

**Figure 1: Unrestricted Fund Balance at Year-End**

	2015-16	2016-17	Unaudited 2017-18
<b>Total Beginning Fund Balance</b>	\$2,203,718	\$2,224,962	\$2,578,930
<b>Add: Operating Surplus</b>	\$21,244	\$353,968	\$70,590
<b>Total Year-End Fund Balance</b>	\$2,224,962	\$2,578,930	\$2,649,520
<b>Less: Restricted and Assigned Funds</b>	\$412,924	\$413,336	\$688,486
<b>Less: Appropriated Fund Balance for the Ensuing Year</b>	\$411,276	\$338,123	\$ 319,625
<b>Total Unrestricted Funds at Year-End</b>	\$1,400,762	\$1,827,471	\$1,641,409
<b>Ensuing Year's Budgeted Appropriations</b>	\$11,902,443	\$11,987,328	\$11,173,603
<b>Unrestricted Funds as Percentage of the Ensuing Year's Budget</b>	11.77%	15.25%	14.69%

We compared budgeted revenues and appropriations with actual results of operations from 2015-16 through 2017-18. While revenue estimates were reasonable, the Board adopted budgets that overestimated appropriations by \$2.03 million or 6 percent over the three-year period. In addition, for 2017-18, projected total expenditures include \$403,090 for the transfer to the capital fund and emergency transformer project which was not included in the adopted budgeted appropriations. Including those expenditures, the appropriations were overestimated by approximately \$300,000 or 2.5 percent.

**Figure 2: Overestimated Appropriations**

	2015-16	2016-17	Unaudited 2017-18	Totals
<b>Appropriations</b>	\$11,942,390	\$11,902,443	\$11,987,328	\$35,832,161
<b>Actual Expenditures</b>	\$11,142,347	\$10,960,285	\$11,689,586 <sup>a</sup>	\$33,792,218
<b>Overestimated Appropriations</b>	\$800,043	\$942,158	\$297,742	\$2,039,943
<b>Percentage Overestimated</b>	7.2%	8.6%	2.5%	6.0%

<sup>a</sup> Includes \$200,000 transfer to the capital fund and \$203,090 emergency project that was not included in the adopted budget

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The overestimated appropriations included certain individual accounts being overestimated. We analyzed expenditure accounts to determine whether the budget estimates were reasonable based on prior years' actual expenditures. Overestimated appropriations were spread among numerous accounts throughout the budgets. The most significant overestimations in fiscal year 2017-18 were for services provided by the Washington-Saratoga-Warren-Hamilton-Essex Board of Cooperative Educational Services (BOCES) and private school tuition, which were overestimated \$440,970 (28.32 percent). The Board consistently overestimated the same appropriations by \$131,551 (6.89 percent) in 2015-16 and by \$335,696 (20.29 percent) in 2016-17. The remaining overestimated appropriations were spread between several accounts including overestimated employee and retiree health insurance by \$196,104 (11.06 percent) in 2015-16, \$223,064 (13.43 percent) in 2016-17 and \$141,352 (7.77 percent) in 2017-18.

As a result, the District experienced operating surpluses from 2015-16 through 2017-18, total fund balance increased and unrestricted fund balance exceeded the statutory limit by 7.77 to 10.69 percentage points. The Superintendent and Business Official are aware that prior adopted budgets included overly conservative estimates and informed us they planned on including more reasonable estimates in the 2018-19 budget.

Based on our review of the District's adopted 2018-19 budget totaling approximately \$11.2 million, estimated appropriations and revenues appear reasonable based on prior years' actual results.

The Board was aware of the District's excess accumulated unrestricted fund balance. The Superintendent and Business Official told us they had plans to establish additional reserves and to use some of the excess fund balance for a future capital project. Starting in 2019, District officials anticipate payments for a \$3.69 million capital project for buildings and grounds renovations. Subsequent to our fieldwork, the Board approved a capital reserve, repair reserve and a liability reserve to be funded with excess fund balance.

## **What Do We Recommend?**

The Board and District officials should:

1. Adopt annual budgets which are realistic based on historical trends or other known factors and use appropriated fund balance to fund operations.

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2. Ensure that the amount of unrestricted fund balance is in compliance with the statutory limit and use excess funds as a financing source for:

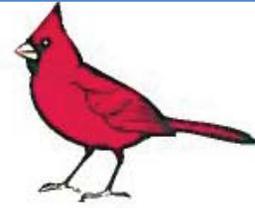
- Funding one-time expenditures,
- Funding needed reserves,
- Paying off debt, and
- Reducing District property taxes.

# Appendix A: Response From District Officials

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## *Home of the Cardinals*

**Fort Ann Central School District**  
**1 Catherine Street**  
**Fort Ann, New York 12827**  
**(518) 639-5594**



September 18, 2018

The Fort Ann Central School audit response below will also serve as our Corrective Action Plan.

We agree with substantially all of the findings within the Office of the State Comptroller's audit report. The Fort Ann Central School administrative team and staff appreciate the time and effort the NYS OSC auditors took to prepare and publish their report.

Unit Name: Fort Ann Central School District  
Audit Report Title: Fund Balance Management  
Audit Report Number: 2018M-119

Per the Office of the State Comptroller:

The Board and District officials should:

1. Adopt annual budgets which are realistic based on historical trends or other known factors and use appropriated fund balance to fund operations.
2. Ensure that the amount of unrestricted fund balance is in compliance with the statutory limit and use excess funds as a financing source for:
  - Funding one-time expenditures;
  - Funding needed reserves;
  - Paying off debt; and
  - Reducing District property taxes.

Fort Ann Central School Implementation Plan of Actions:

The OSC also recommended to "adopt annual budgets which are realistic based on historical trends [...]". The Fort Ann Central School will develop a five-year long range financial plan to be completed by the end of 2018 and will be available for our taxpayers and citizens to view. This will be completed by the Business Official, using six years of historical data for our five-year future.

Fort Ann Central School will be funding one-time expenditures such as updated security cameras, a new school bus lift for our transportation department, and an additional lawn mower for our maintenance department.

Fort Ann Central School has recently and plans to continually fund needed reserves. Our taxpayers voted on May 15, to fund a Capital Reserve up to \$1 million and plan to partially fund the reserve each school year, permitting the availability of funds.

With our upcoming Capital Project, we will look at the ability to pay for costs to lessen our expected debt.

The Fort Ann Central School has appropriated fund balance to offset and reduce property taxes. For the 2018-2019 school year we have appropriated \$319,625 of fund balance to fund budgeted expenditures. These methods will put us on track to be in compliance with the Real Property Statutory limit on unrestricted fund balance.

Board President - James A. Seeley

## 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 the Business Official and other District officials to gain an understanding of the District's financial management policies, procedures and budgeting practices.
- We analyzed the District's general fund financial records for the audit period to determine whether unrestricted fund balance increased or decreased. We also evaluated any factors contributing to the identified increase or decrease.
- We reviewed the Board-adopted general fund budgets to determine whether they were realistic and structurally balanced by comparing the adopted budgets from the 2015-16 through the 2017-18 fiscal years with actual results of operations.
- We reviewed the adopted general fund budget for 2018-19 to determine whether budgeted revenues and appropriations were reasonable based on historical data and supporting source documentation.
- We analyzed the general fund's financial condition to determine if during the audit period fund balance increased or was in excess of statutory limit and if operating deficits were incurred.

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)

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[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)

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