

Glens Falls City School District

Financial Management

JUNE 2019



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

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Report Highlights

Glens Falls City School District

Audit Objective

Determine whether District officials effectively managed general fund balance.

Key Findings

- The District's reported fund balance has increased significantly over the past three fiscal years and the surplus fund balance was in excess of the statutory limit at fiscal year-ends 2015-16 through 2017-18 by 6.9 to 15.3 percentage points.
- Appropriations were consistently overestimated which resulted in the increasing fund balance levels and the District not using any of the fund balance it appropriated to finance 2017-18 operations.
- The District has not formalized or adopted a multiyear financial and capital plan.

Key Recommendations

- Use surplus funds as a financing source to fund one-time expenditures and reserves, pay off debt or to reduce District property taxes.
- Adopt annual budgets with realistic estimates for appropriations.
- Adopt a multiyear financial and capital plan.

Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on issues raised in the District's response letter.

Background

The Glens Falls City School District (District) serves the City of Glens Falls and a portion of the Town of Queensbury in Warren County.

The District is governed by a Board of Education (Board) 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 (Superintendent) is responsible for the District's day-to-day management. The Assistant Superintendent of Business (Assistant Superintendent) is responsible for budget development and administration.

Quick Facts

Employees	290
Student Enrollment	2,000
2018-19 Adopted Appropriations	\$44.3 million

Audit Period

July 1, 2015 – September 30, 2018

Fund Balance Management

What is Effective Fund Balance Management?

To effectively manage fund balance, a board must adopt realistic and structurally balanced budgets based on historical data, supporting data or known trends, in which recurring revenues finance recurring expenditures and reasonable levels of fund balance are maintained. In addition, budget transparency is important for public participation and accountability and allows taxpayers to assess and provide feedback on the quality and adequacy of services as well as decisions that impact a district's long-term financial stability. Districts can assist with budget transparency by including a comparison of budget-to-actual information for prior years when presenting budgets to the public providing taxpayers with a better understanding of trends and giving them the opportunity to make more informed decisions when voting on the budget.

In order to provide for cash flow and unanticipated events, a district may retain a portion of fund balance, referred to as surplus fund balance. District officials should ensure that the surplus fund balance does not exceed the amount allowed by New York State Real Property Tax Law, which is currently limited to no more than 4 percent of the following year's adopted appropriations.¹ Any surplus fund balance over this percentage must be used to reduce the real property tax levy by appropriating fund balance to lower the fund balance. When fund balance is appropriated to finance operations, a district is budgeting for a 'planned operating deficit' equal to the amount of the appropriated fund balance.

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. Such plans allow officials to identify developing revenue and expenditure trends, establish long-term priorities and goals and consider the impact of near-term budgeting decisions on future fiscal years.

Multiyear plans also help officials assess the merits of alternative approaches (such as appropriating fund balance or establishing and using reserves) to finance operations and capital needs. Any multiyear plan must 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.

¹ For purposes of computing fund balance subject to New York State Real Property Tax Law Section 1318, the 4 percent limitation is applied to unrestricted fund balance which includes committed, assigned and unassigned fund balance minus appropriated fund balance, amounts reserved for insurance recovery and encumbrances included in committed and assigned fund balance. Appropriated fund balance is classified as assigned, but must be excluded from the 4 percent calculation because it is not being retained and is already being used to reduce the tax levy for the subsequent fiscal year. Encumbrances and other reserved amounts are excluded for consistency, because they are not considered surplus funds.

Surplus Fund Balance Exceeded the Statutory Limit

District officials need to improve budgeting practices to more effectively manage fund balance. The District's surplus fund balance exceeded the statutory limit at the end of fiscal years 2015-16 through 2017-18. Additionally, the District's reported assigned appropriated fund balance was overstated as of June 30, 2017.²

Total and surplus fund balance amounts have increased significantly from the 2015-16 through 2017-18 fiscal years. The reported surplus fund balance exceeded the statutory limit by 6.9 to 15.3 percentage points as of year-ends 2016, 2017 and 2018, respectively. The reported surplus fund balance increased from approximately \$4.5 million at June 30, 2016 to over \$8.5 million as of June 30, 2018, an increase of about \$4 million or 89 percent. Furthermore, the District's reported assigned appropriated fund balance was overstated by \$1.6 million as of June 30, 2017. The District incorrectly categorized these amounts as assigned appropriated fund balance even though they were intended to be used for its current capital project rather than to finance the subsequent year's operations.³

We recalculated the District's surplus fund balance as of June 30, 2017 by adding back the amount the District had incorrectly reported as assigned appropriated fund balance. The District's recalculated surplus fund balance as of June 30, 2017 was more than \$7 million or 16.3 percent of the 2017-18 appropriations, exceeding the statutory limit by more than \$5.2 million. Furthermore, even with the correction for the overstated amount, as of June 30, 2018 the surplus fund balance totaled over \$8.5 million or 19.3 percent of the ensuing years' appropriations, exceeding the statutory limit by more than \$6.7 million.

2 Subsequent to our fieldwork, the annual report filed for 2017-18 corrected the overstated amounts. While the financial statements initially available incorrectly included \$1.5 million as assigned appropriated fund balance, the District later reported the overstated \$1.5 million as assigned unappropriated fund balance.

3 The \$17.55 million capital project was approved by voters in May 2017. District officials informed voters they planned to use \$1.6 million of surplus fund balance to help finance the project. To set these funds aside, the District categorized this amount as assigned appropriated fund balance. The capital project started the summer of 2018 and officials decreased the planned surplus fund balance amount to \$1.5 million.

Figure 1: Surplus Fund Balance at Year-End

	2015-16	2016-17	2017-18
Total Beginning Fund Balance	\$6,144,064	\$9,104,657 ^a	\$12,418,032
Add: Operating Surplus	\$2,957,827	\$3,313,375	\$2,282,411
Total Year-End Fund Balance	\$9,101,891	\$12,418,032	\$14,700,443
Less: Restricted Funds	\$4,547,916	\$4,602,737	\$4,614,016
Less: Encumbrances	\$28,225	\$30,785	\$124,570
Less: Assigned Appropriated Fund Balance	\$0	\$2,374,262	\$1,405,297
Total Surplus Fund Balance at Year-End Reported by District	\$4,525,750	\$5,410,248	\$8,556,560
Ensuing Year's Budgeted Appropriations	\$41,422,882	\$43,050,269	\$44,309,688
Surplus Fund Balance as Percentage of the Ensuing Year's Budget	10.9%	12.6%	19.3%
Add: Overstated Assigned Appropriated Fund Balance	\$0	\$1,600,000	\$0
Adjusted Surplus Fund Balance at Year-End^b	\$4,525,750	\$7,010,248	\$8,556,560
Adjusted Surplus Fund Balance as Percentage of the Ensuing Year's Budget	10.9%	16.3%	19.3%

a Includes a prior period adjustment of \$2,766.

b Reclassified funds that were assigned to be used for the District's current capital project in the amount of \$1.6 million for fiscal year 2016-17.

The District did not appropriate fund balance to finance operations for the 2015-16 and 2016-17⁴ fiscal years. For the 2017-18 year, the District appropriated \$774,262 of fund balance to finance operations. However, instead of realizing an operating deficit, the District realized an operating surplus of approximately \$2.3 million which was a variance between the planned operating deficit and actual operating surplus of almost \$3.1 million. As a result, none of the appropriated fund balance was used to finance operations in 2017-18.

We compared budgeted revenues and appropriations with actual results of operations for 2015-16 through 2017-18. Although we found revenue estimates were reasonable, the Board adopted budgets that overestimated appropriations by an average of \$2.8 million annually, or a cumulative total of more than \$8.5 million or 7.4 percent over the three-year period. While the amount of

⁴ While the District appropriated \$1.6 million of fund balance as of June 30, 2017 to finance the capital project, it did not appropriate any fund balance to finance general fund operations for 2016-17.

overestimated appropriations was not excessive in any of the three years, the consistent practice of overestimating appropriations has contributed to the increasing level of excess fund balance.

Figure 2: Overestimated Appropriations

	2015-16	2016-17	2017-18	Total
Appropriations	\$39,718,000	\$41,422,882	\$43,050,269	\$124,191,151
Actual Expenditures	\$37,092,493	\$38,192,675	\$40,394,480	\$115,679,648
Overestimated Appropriations	\$2,625,507	\$3,230,207	\$2,655,789	\$8,511,503
Percentage Overestimated	7.1%	8.5%	6.6%	7.4%

For the 2015-16 through 2017-18 years, we analyzed all expenditure accounts to determine whether the budget estimates were reasonable based on prior years' actual expenditures and current needs. Overestimated appropriations were spread among numerous accounts throughout each year's budget. The most significant overestimation in 2017-18 was for health and dental insurance, which was overestimated by \$1.4 million (26.4 percent). The District also overestimated health and dental insurance costs by \$408,613 (8 percent) in 2015-16 and by \$757,811 (14.5 percent) in 2016-17.

The Assistant Superintendent's calculation for projected health and dental insurance costs primarily used the highest insurance premium rate amongst the rates for four plans available to employees based on enrollment. He also increased the current costs used in the projections by 10 to 12 percent. The Assistant Superintendent⁵ used this approach while projecting the cost of health and dental insurance in both the 2016-17 and 2017-18 years. However, these projections were never compared to the prior year's actual results. When we asked, the Superintendent and Assistant Superintendent both stated they are aware this line item has been overestimated and they plan to carry the amount budgeted for 2017-18 through future budgets until actual costs increase. Using this approach of continuing with an appropriation that is too high until actual costs increase will result in taxes being higher than needed and will add to the excess fund balance.

The District also overestimated appropriations for its annual obligations to the employees' State retirement system by \$324,443 (67.5 percent) in 2015-16 and maintenance of plant by \$131,398 (29 percent) in 2016-17 and \$154,096 (41 percent) in 2017-18. In addition, the budget information provided to the public included only the current year's appropriations compared to the appropriations being voted on for the next year. Therefore, it showed the change

⁵ The current Assistant Superintendent was hired in October 2015.

in the appropriations and not the actual expenditures as compared to the appropriations. Although the District's independent audited financial statements are available on its website, these comparative trends were not included with the budget information made available to the public, limiting the transparency of the budgeting process.

Because District officials consistently overestimated appropriations, it appeared the District needed to increase its tax levy and use appropriated fund balance to close projected budget gaps. From 2015-16 through 2017-18, the Board increased the real property tax levy by a total of approximately \$904,000, or 4.29 percent, an annual average of approximately \$301,000 or 1.43 percent.⁶ While some expenditures are difficult to accurately estimate, others, such as retirement costs and maintenance of plant, can be easily predicted and should be budgeted more accurately.

Based on our review of the District's adopted 2018-19 budget totaling approximately \$44.3 million, estimated revenues appear reasonable. However, the Board appropriated approximately \$1.4 million in fund balance to help finance operations even though it will likely not use any of the amount appropriated because officials continued the pattern of overestimating appropriations. As a result, we expect fund balance will further increase by approximately \$2.8 million, rather than decrease as budgeted.

A Formal Multiyear Plan Was Not Adopted

District officials have not developed a formal, written multiyear financial and capital plan. The Assistant Superintendent told us officials have discussed plans to fund reserves for future capital projects and to use fund balance to finance one-time expenditures. However, they have not formalized and adopted the plans or developed revenue and expenditure projections for future years.

For example, the District has appropriated approximately \$1.5 million of its surplus fund balance to pay for some of the costs associated with the \$17.55 million capital project approved by voters in May 2017. In addition, the District purchased a building next to the District's bus garage on October 12, 2018 in the amount of \$244,653 by using surplus fund balance to finance the purchase.⁷

The lack of a written and formal multiyear financial plan including estimates for revenues, expenditures, reserves and fund balance, including a multiyear capital plan for identifying long-term capital needs inhibits District officials'

⁶ Each of the District's tax levy increases over the three-year period reviewed were within the allowable real property tax levy limits (tax cap). Additionally, the 2018-19 tax levy was within the allowable tax cap.

⁷ Although this purchase occurred outside of our scope period, we obtained copies of cancelled check images and the closing statement showing the purchase took place.

abilities to effectively manage finances and address future needs. As the District moves forward, formal, well-designed multiyear plans can assist the Board in making timely and informed decisions about programs and operations and help manage fund balance. Lastly, written and Board-adopted multiyear plans result in the District providing its taxpayers with a transparent plan for financing future operating and capital needs.

What Do We Recommend?

The Board and District officials should:

1. Ensure that the amount of surplus 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.
2. Properly classify fund balance amounts so that financial statement users can appropriately identify how funds are intended to be spent.
3. Develop and adopt realistic estimates for appropriations based on the District's historical trends, supporting documentation and current needs; use appropriated fund balance to actually finance operations and include comparative trend information for taxpayers as part of the budgeting process.
4. Develop a comprehensive multiyear plan to provide a framework for future budgets and guide the District's management of financial condition. This plan should be periodically reviewed and updated as appropriate.

Appendix A: Response From District Officials



Glens Falls
CITY SCHOOL DISTRICT

Paul Jenkins, Superintendent of Schools
Trent Clay, Assistant Superintendent for Curriculum & Instruction
Robert Yusko, Jr., Assistant Superintendent for Business

April 22, 2019

Office of the State Comptroller
Local Government & School Accountability
Attn: Mr. Jeffrey P. Leonard, Chief Examiner
Glens Falls Regional Office
One Broad Street Plaza
Glens Falls, New York 12801-4396

RE: Glens Falls City School District, Financial Management, Report of Examination, Audit 2019M-12

Dear Mr. Leonard,

Thank you for the opportunity to respond to the above referenced audit report, for the period covered July 1, 2015 through September 30, 2018. The Glens Falls City School District also wishes to thank the New York State Comptroller's Office and the team of examiners who worked with District officials on this audit. The District takes all of the findings and recommendations seriously and we will continue to strive to ensure that all of our procedures are best practice.

We have reviewed the preliminary draft audit findings related to the Financial Management Report of Examination of the Glens Falls City School District audit. Key findings of the report include: (1) reported fund balance has increased significantly over the past three fiscal years and the surplus fund balance was in excess of the statutory limit at fiscal year ends 2015-16 through 2017-18 by 6.9 to 15.3 percentage points; (2) appropriations were consistently overestimated which resulted in the increasing fund balance levels and the District not using any fund balance it appropriated to finance 2017-18 operations; (3) the District has not formalized or adopted a formal multiyear financial and capital plan. Further, the report offers key recommendations, in response to the findings. These include: (1) use surplus funds as a financing source to fund one-time expenditures and reserves, pay off debt or to reduce District property taxes; (2) adopt annual budgets with realistic estimates for appropriations; (3) adopt a formal multiyear financial and capital plan.

The District offers the following combined response and Corrective Action Plan (CAP).

Recommendations

1. The Board and District officials should ensure that the amount of surplus 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.

District Response/Action:

The District acknowledges the Comptroller's finding of reported fund balance significantly increasing during the audit period. District officials are aware of the amounts in excess of the statutorily allowable limit, and are committed to utilizing the funds in a manner consistent with the recommendations provided.

Although surplus funds have increased, the District has utilized some of these recommendations prior to the issuance of this report, and will continue to do so. For example, the District had an unanticipated opportunity to acquire a property adjacent to its Bus Garage, in the Town of Queensbury. Conversations had been ongoing for a number of years regarding space and safety concerns at the existing Bus Garage facility. The District had the surplus funds to easily acquire the property, and the voters approved the acquisition of the property in January 2018, and the District closed on the sale in October 2018.

Surplus funds have also allowed the District to move forward in addressing academic initiatives in the classroom, through actions such as purchasing collaborative furniture and updating existing academic classroom spaces. The District has also made commitments to purchase new furniture for each school building's library, and additional Chromebooks to ensure the 1:1 device environment continues.

The District is currently working to develop a scope for a capital improvement project, which will include the replacement of the existing athletic turf field and track at the high school. In 2009, a capital reserve in the amount of \$250,000 was established to help fund the eventual replacement of the track, however the District will be designating an additional \$2 million towards this and any additional work.

As recently as April 8, 2019, the District created a Teachers Retirement System (TRS) Sub-Fund Reserve, to the Employees Retirement System Contribution Reserve, and funded it in the amount of \$316,082. The District has a formal Financial Reserve and Fund Balance plan that is updated and adjusted to reflect current balances, realities and conditions facing the District.

Finally, the District did not initially intend on contributing cash to the May 2017 voter approved \$17.55 million project, in the form of project revenue. The funds were to be used to offset an increase in taxes—in the New York State prescribed Tax Cap formula—resulting from the short-term and long-term financing for the project. However, on November 27, 2018, the District transferred \$400,000 to the capital project fund, which will be used as project revenue. The effect of this action results in a reduction in necessary debt issuance of \$400,000 over the life of the project.

See Note 1 Page 14

2. Properly classify fund balance amounts so that financial statement users can appropriately identify how funds are intended to be spent.

District Response/Action:

The District acknowledges the Comptroller’s finding of the need to properly classify fund balance amounts so that financial statement users can appropriately identify how funds are intended to be spent. The District believed by classifying the \$1.6 million in assigned fund balance as of June 30, 2017 and approximately \$1.5 million as of June 30, 2018, it was acting in a manner consistent with the finding. However, the District agrees; if funds are not intended to be used in the ensuing fiscal year, they should not be classified as appropriated.

When the District was developing the capital project that was approved by the voters in May 2017, officials communicated \$1.6 million of cash on hand would be used to ensure the project would be tax neutral to the community. After the approval of the project, the District classified \$1.6 million as of June 30, 2017, to reflect that commitment. As of June 30, 2018, the District had already used \$400,000 of the \$1.6 million—originally classified in assigned appropriated fund balance—to offset an increase to the coming school year exemption portion of the District’s 2017-18 New York State Tax Levy calculation. Without the \$400,000 offset from this portion of assigned fund balance, the coming school year exemptions would have otherwise increased the District’s 2017-18 maximum allowable tax levy by the same amount. Since the \$400,000 was utilized to offset the coming school year exemptions in 2017-18 levy calculation, the District removed it from the amount reported as of June 30, 2018.

See
Note 1
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As of June 30, 2018, the “overstated” amounts in assigned fund balance of \$1.46 million represents the remaining funds the District is utilizing to offset tax levy increases in future years; \$1.2 million (\$1.6 million less \$400,000) and \$260,000, for the January 2018 voter-approved acquisition of the property adjacent to the District’s Bus Garage. The voters approved the purchase for \$240,000, plus reasonable and customary closing costs and expenses; therefore the District assigned \$260,000 as of June 30, 2018, because as of that date, the District had not legally closed on the property. The closing took place in October 2018.

Ultimately, the District recognizes any funds not intended on being used in the ensuing fiscal year should not be classified as assigned appropriated fund balance. The report indicates the District overstated assigned appropriated fund balance as of June 30, 2017 and 2018, however, the only amount reported in assigned appropriated fund balance as of June 30, 2018 is the amount appropriated for the 2018-19 budget. While the District agrees, fund balance was incorrectly categorized as of June 30, 2017, the District disagrees that fund balance was incorrectly categorized as of June 30, 2018.

The District would like to highlight that both the ST-3 on file with the New York State Education Department and internal accounting records show a reported balance in A915, Assigned Unappropriated Fund Balance, as of June 30, 2018, in the amount of \$1,584,570 (\$1.46 million referred to above, plus \$124,570 of encumbrances). The District utilizes the bulletin on Fund Balance Reporting and Governmental Fund Type Definitions, originally issued in November 2010, and updated in April 2011, from the Division of Local Government and School Accountability to Chief Fiscal Officers, as a tool to help determine proper classifications of fund balances. In reviewing this bulletin, the District recognized the need to report assigned fund balances relating to the capital project and the property acquisition in A915, Assigned Unappropriated Fund Balance, as of June 30, 2018, rather

See
Note 2
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than in A914, Assigned Appropriated Fund Balance, as of June 30, 2017. The District will have ongoing conversations with its independent auditors and financial advisors to determine whether or not the amounts should be reclassified to unassigned fund balance, without regard to the District's actual intended use of these funds.

- i. Develop and adopt realistic estimates for appropriations based on the District's historical trends, supporting documentation and current needs; use appropriated fund balance to actually finance operations and include comparative trend information for taxpayers as part of the budgeting process.**

District Response/Action:

The District recognizes the large surpluses that occurred during the audit period, which ultimately is the result of a conservative budgeting approach. The District's commitment to conservative budgeting practices, along with consistent monitoring of its reserves and fund balance, has helped the district to meet unexpected budgetary obligations, such as: increases to special education services; increases in mandated transportation services; and the ability and flexibility to add positions or programs to support every one of the District's students.

While the report indicates the amount of overestimated appropriations was not excessive in any of the three years, the District recognizes the consistent practice has contributed to the growing levels of excess fund balance. As a result, during the 2018-19 budget development process, the District did not increase the health insurance appropriation from 2017-18 to 2018-19. In fact, the health insurance appropriation also remains flat in the 2019-20 proposed budget.

However, with regard to the health insurance appropriations, the District believes it is important to note; during the development of the 2016-17 and 2017-18 budgets, the District was in negotiations with its three largest collective bargaining units. The District was attempting to negotiate a less costly health insurance base plan, but, the appropriation did not assume a successful negotiation. The assumption used during the budget development process was the higher cost plan would not be eliminated. Therefore, when the District reached settlements with the bargaining units, and health insurance plans were changed to a less costly base plan in 2017-18, the overestimation of the appropriation was exacerbated because the District realized greater savings.

The District recognizes and agrees with the erroneously appropriated excess funds for the employees' State retirement system (ERS) in 2015-16. Since then, budgeting practices have reflected appropriation amounts for ERS obligations that are identical to the dollar amounts provided to the District on estimates and projections from NYSLRS.

The District is entirely committed to continue moving forward with its initiatives, and seeks to ensure it can weather any type of financial downturn. Unfortunately, it is for these exact reasons the District believes it must take the opportunity to acknowledge the competing philosophies on whether local tax levy increases are necessary to support annual operations, if a district overestimates appropriations or has excess fund balance.

The New York State Tax Cap calculation prescribes the prior year tax levy as the starting point for calculating the coming year tax levy. Therefore, any time a district elects to forego an allowable tax levy increase, the district will forfeit that revenue forever, potentially jeopardizing funding, programs and/or student opportunities in future years.

The report highlights the real property tax levy increased an annual average of approximately \$301,000 or 1.43 percent per year, from 2015-16 through 2017-18. To gain perspective about this trend, the District believes it is also equally important to note its average growth in salary expenditures outpaced average levy growth figures. Average growth in reported salary expenditures during the same period was \$537,000 or 3.04 percent per year. Further, the District's share of tax levy revenues exceeded its share of state aid revenues for 2015-16, 2016-17, and 2017-18 school years. The proportionate share of local tax revenue as a percent of total revenues, compared to state aid revenue, as a percent of total revenues for the 2015-16, 2016-17, and 2017-18 years was 50 to 42 percent, 49 to 44 percent, and 48 to 43 percent, respectively; an indication of increased reliance on local funds.

In the 7 years (through 2018-19) since the enactment of the New York State Tax Levy cap in the 2012-13 fiscal year, the District has averaged an annual levy increase of 1.55 percent or \$307,021. Compared to the prior 7 fiscal years (2005-06 through 2011-12) when the District averaged an annual levy increase of 3.95 percent or \$639,520. Clearly the impact to District revenues has been realized, and the conservative budgeting practices for appropriations have reflected this reality, which is now permanent after the passage of the New York State 2019-20 budget.

In addition to the District's increased reliance on local funds, the economic outlook from New York State must not be ignored. The District believes it is prudent to take seriously economic factors facing the State, such as the projected State revenue shortfall, resulting from the SALT cap contained in the passage of Tax Cuts and Jobs Act of 2017. In its 2019-20 budget, New York State officials also agreed on language that could present a mid-year budget reduction. The State authorized the Budget Director to prepare a plan to reduce local spending by up to 1 percent, if a state budget deficit of \$500 million or more emerges.

As recently as the 2015-16 school year, the District suffered state aid reductions in the form of the Gap Elimination Adjustment (GEA). Between the 2010-11 and 2015-16 school years, the District suffered a state aid shortfall of \$13,415,302. When taking the predecessor to the GEA into account—the Deficit Reduction Assessment (DRA)—from the 2009-10 school year, the state aid shortfall over the 7 year span totaled \$14,850,676, an average of \$2,121,525 per year. Unfortunately, the District must put itself in a position to prepare for another unexpected revenue shortfall.

Develop a comprehensive multiyear plan to provide a framework for future budgets and guide the District's management of financial condition. This plan should be periodically reviewed and updated as appropriate.

District Response/Action:

The District highly values an open and transparent process with regard to all of its financial planning and budgeting actions. The District agrees that a formal comprehensive multiyear plan should be developed. The District appreciates and thanks the Comptroller's office for acknowledging the discussions with the Assistant Superintendent regarding the District's informal plans. These informal plans will be incorporated with revenue and expenditure projections for future years, to help guide future budget development and management of financial condition.

These plans are deemed formal upon adoption by the Board of Education.

The Glens Falls City School District once again would like to thank you for bringing these findings to our attention. We will continue to focus our efforts on improvement in the areas noted in the audit report.

Sincerely,
Glens Falls City School District

Paul H. Jenkins
Superintendent of Schools

Robert D. Yusko Jr.
Assistant Superintendent for Business

CC: Board of Education, Glens Falls City School District

Appendix B: OSC Comments on the District's Response

Note 1

A District newsletter issued in May 2017 included information on the capital project propositions that were on the May 16, 2017 ballot specifically stating, "That state money, combined with up to \$1.8 million from the district's unassigned fund balance, would cover the full cost of the proposed capital improvements without raising local taxes." It also stated, "It will not be necessary to raise taxes because state building aid and funds from the district's undesignated fund balance (once it is transferred to the capital fund) would be used to pay for the work." As a result, the District included \$1.6 million in its assigned appropriated fund balance as of June 30, 2018 to be used to offset the cost of the approved capital project indicating the intent for the funds to be used as project revenue.

While \$400,000 of the \$1.6 million assigned appropriated fund balance was shown as a revenue source for the capital project in its 2017-18 real property tax cap calculation, the transfer was not planned and did not occur until we discussed this with District officials. The calculation determines the maximum amount of real property taxes that can be levied by the District to be in compliance with the real property tax cap. It does not calculate the amount of assigned appropriated fund balance to be used by the District as a revenue source or the amount of budgeted appropriations that are necessary to operate the District in an efficient manner.

Note 2

As a result of additional information provided by District officials, we modified our finding. The financial statements available during fieldwork included the overstated amount as assigned appropriated fund balance.

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 budgeting practices.
- We analyzed the District's general fund financial records to determine whether 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 2015-16 through 2017-18 to 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 whether surplus fund balance was in compliance with the statutory limit and whether 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 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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