

Northern Adirondack Central School District

Financial Condition

SEPTEMBER 2020



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

Contents

- Report Highlights 1**

- Financial Condition 2**
 - What Is Effective Financial Condition Management? 2
 - Financial Condition Has Significantly Declined 2
 - The Board Has Not Adopted a Comprehensive Multiyear
Financial Plan or Addressed the Declining Fund Balance 4
 - What Do We Recommend? 5

- Appendix A – Response From District Officials 6**

- Appendix B – Audit Methodology and Standards 8**

- Appendix C – Resources and Services 9**

Report Highlights

Northern Adirondack Central School District

Audit Objective

Determine whether the Board and District officials effectively manage the District's financial condition.

Key Findings

- Expenditures have exceeded appropriations by a total \$626,000 in 2017-18 and 2018-19. Additionally, the budgets are not structurally balanced and have used \$1.5 million in appropriated fund balance to fund operations.
- Because of the District's ongoing reliance on fund balance to finance expenditures, the total fund balance has declined from about \$2.5 million at the beginning of 2017-18 to about \$1 million at the end of 2018-19.
- The Board has not adopted a multiyear financial plan or a plan to address the declining fund balance.

Key Recommendations

- Adopt realistic and structurally balanced budgets.
- Continue to monitor the budget and make modifications as needed.
- Develop a comprehensive multiyear financial plan that addresses the declining fund balance.

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

Background

The Northern Adirondack Central School District serves the Towns of Altona, Beekmantown, Chazy, Clinton, Dannemora, Ellenburg, Mooers, and Saranac in Clinton County and the Town of Bellmont in Franklin County.

The elected seven-member Board of Education (Board) is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible for the budget development and, along with other administrative staff, its day-to-day management. The Business Executive oversees the business office and maintains the financial records.

Quick Facts

Enrollment	827
------------	-----

Employees	137
-----------	-----

General Fund

2016-17 Expenditures	\$20,519,180
----------------------	--------------

2017-18 Expenditures	\$21,512,881
----------------------	--------------

2018-19 Expenditures	\$22,506,743
----------------------	--------------

2019-20 Budgeted Appropriations	\$22,572,125
---------------------------------	--------------

Audit Period

July 1, 2016 – December 31, 2019

Financial Condition

What Is Effective Financial Condition Management?

Financial condition may be defined as a district's ability to balance recurring expenditure needs with recurring revenue sources, while providing desired services on a continuing basis. To maintain the district's fiscal stability, the board should adopt realistic, structurally balanced budgets (recurring revenues financing recurring expenditures) and regularly compare actual operating results to budgeted estimates throughout the year. Budget estimates should be based on historical data or known trends. Officials are also responsible for ensuring that the level of fund balance maintained is sufficient to provide adequate cash flow.

While fund balance can be appropriated in the budget to help finance operations, consistently doing so instead of using recurring revenue sources can deplete the fund balance to levels that are not sufficient for contingencies and cash flow. A continuous decline in fund balance indicates a deteriorating financial condition.

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

Financial Condition Has Significantly Declined

The beginning fund balance has declined from \$2.5 million at the beginning of 2017-18 to \$986,730 at the end of 2018-19. Because a portion of the fund balance is restricted, the unrestricted fund balance has declined from \$1.9 million to \$388,332 (1.7 percent of the next year's appropriations) during the same timeframe. This occurred because the District budgeted for planned deficits by appropriating fund balance in each budget. Certain expenditures also exceeded the budgeted appropriation by \$626,000 for the two years resulting in additional fund balance being used and larger operating deficits than planned. Specifically, the District budgeted for a planned deficit of \$265,000 in 2017-18 and \$550,000 in 2018-19, and overspent the adopted budgets resulting in operating deficits that totaled \$524,355 in 2017-18 and \$942,907 in 2018-19.

The board should adopt realistic, structurally balanced budgets (recurring revenues financing recurring expenditures).

Figure 1: Fund Balance Analysis

Fiscal Year	2016-17	2017-18	2018-19
Total Beginning Fund Balance	\$2,383,144	\$2,453,992 ^a	\$1,929,637
Add: Surplus / (Deficit)	\$80,341	(\$524,355)	(\$942,907)
Total Year-End Fund Balance	\$2,463,485	\$1,929,637	\$986,730
Less: Restricted and Assigned Funds	\$280,338	\$255,628	\$273,398
Less: Appropriated Fund Balance for the Ensuing Year	\$265,000	\$550,000	\$325,000
Total Unrestricted Funds at Year-End	\$1,918,147	\$1,124,029	\$388,332
Ensuing Year's Appropriations	\$21,271,283	\$22,122,100	\$22,572,125
Unrestricted Funds as a Percentage of the Ensuing Year's Budget	9.0%	5.1%	1.7%

a This amount includes a prior-period adjustment to reduce the fund balance by \$9,493.

Expenditures exceeded the original appropriation because certain appropriations were consistently and significantly underestimated:

- Programs for students with disabilities¹ were underestimated by \$288,779 (19 percent) in 2018-19. The appropriation is determined through a collaboration of the business office and the special education office. According to the Business Executive, the District's expenditures exceeded the original appropriation because there are additional students every year who receive these services. District officials also told us there are always students who are enrolled into this program after the budget is prepared. Because there have been consistently more students enrolled in this program than originally planned, the District should be able to improve the budgeting of this item.
- Health insurance benefits were underestimated by \$234,215 (7 percent) in 2017-18 and \$94,650 (2 percent) in 2018-19. The Business Executive told us there was a midyear rate increase in 2017-18 that caused the District to overspend its original appropriation. Health insurance expenditures are usually known during budget development and we would not expect the District to be able to budget for unexpected increases that occur during the fiscal year. District officials have been proactive in addressing these cost increases (see next section).
- Foster care tuition was underestimated by \$190,394 (72 percent) in 2017-18 and by \$96,022 (39 percent) in 2018-19. The Business Executive stated that he based his allocation on prior billings and known changes in placements of

¹ Provided through the Board of Cooperative Educational Service (BOCES)

students in foster care. While the District should be able to budget for current students in a foster care program, they are unable to plan for students who are placed in foster care throughout the school year. In both 2017-18 and 2018-19, the District had additional students placed in foster care than originally budgeted for. We urge officials to monitor this item for long-term planning purposes.

- Teaching expenditures² were underestimated each year by an average \$70,698.³ When preparing this budget line, the Business Executive reviews the current year billings and the expected year-to-date cost. He does not review actual billings from completed fiscal years when determining the budget. Therefore, this account has been consistently underestimated.

We reviewed the 2019-20 adopted budget and found that, while estimated revenues were reasonable, appropriations continued to be underestimated. Specifically, teaching expenditures provided through BOCES continue to be underestimated based on historical expenditures and known reductions in these services.

The decrease in unrestricted fund balance has led the District to experience concerns with cash flow. Due to receiving revenues after certain expenditures need to be paid, the District had to issue two revenue anticipation notes (RANs) in 2019-20 in the amount of \$750,000 each that are expected to cost approximately \$9,000 in interest expenditures. The initial RAN was issued in August 2019 prior to the District receiving real property taxes and State aid payments. The subsequent RAN was issued in December 2019. Unless the District improves cash flow, there will be a continued reliance on short-term borrowing.

The Board Has Not Adopted a Comprehensive Multiyear Financial Plan or Addressed the Declining Fund Balance

The Board was unaware of the importance of a multiyear financial plan. While the Business Executive understood the need for a multiyear financial plan, he had not started developing one. The Superintendent told us he intends to have Town Hall meetings to explain the severity of the District's financial condition and expects to propose a budget that would exceed the tax cap.⁴ Additionally, the District has

² Provided through BOCES

³ The underestimations were \$66,165 (35 percent) in 2016-17, \$85,206 (39 percent) in 2017-18 and \$60,722 (30 percent) in 2018-19.

⁴ In 2011, the New York State Legislature enacted a law establishing a property tax levy limit, generally referred to as the property tax cap. Under this legislation, the property tax levied annually generally cannot increase by more than 2 percent or the rate of inflation, whichever is lower, with some exceptions. School districts may override the tax levy limit by presenting to the voters a budget with a tax levy that exceeds the statutory limit. However, the budget must be approved by 60 percent of the votes cast.

switched its health insurance provider during 2019-20 to help control the increase in costs.

The lack of a multiyear financial plan, including long-term measures to address the declining fund balance, limits the District's ability to plan for the future.

What Do We Recommend?

The Board should:

1. Adopt realistic and structurally balanced budgets.
2. Continue to monitor the budget and make modifications as needed.
3. Develop a comprehensive multiyear financial plan that addresses the declining fund balance.

The Board and District officials should:

4. Improve the District's cash flow to reduce its reliance on short-term borrowing.

Appendix A: Response From District Officials



Northern Adirondack Central School District

Office of the Superintendent

James C. Knight, Jr.

P.O. Box 164

Ellenburg Depot, New York 12935

518-594-7060 • Fax 518-594-7255 • jknight@nacs1.org

June 19, 2020

Office of the State Comptroller
Division of Local Government
And School Accountability
Glens Falls Regional Office
One Broad Street Plaza
Glens Falls, NY 12801

Dear Sirs:

Please accept this document as the Northern Adirondack Central School District's official response to the preliminary draft report of your Audit of the District, entitled Financial Condition (2020M-51). The District will address, in this response, each of the four individual recommendations presented in your Report. We would ask that you also consider this the District's Corrective Action Plan (CAP), in regards to your Audit Findings and related Audit Recommendations. The District has a high level of respect for the Audit Process and will utilize the recommendations offered in the Report to continue to strive to improve our internal controls in this area.

1. The Board should adopt realistic and structurally balanced budgets.

The Board of Education and District Administration have consistently strived to develop and adopt annual operating Budgets that are balanced, realistic, and maintain tax rate stability. During FY 2017-2018 and FY 2018-2019, the District incurred significant unanticipated cost increases, which were not identified until after the respective Budgets had been adopted and voter approved. These increases included a mid-year health insurance increase during FY 2017-2018, notification of a large increase in Foster Care placements received in June 2017 (effective beginning FY 2017-2018), and a large increase in Special Education (BOCES placements) for FY 2018-2019. Due to the timing of the notifications of these increases and the significance of the dollar amounts involved there was a "lag" in the Budget process. The Budget process has, to a large extent, caught up with the lag, with FY 2019-2020 expenditures projected to be below appropriations.

2. The Board should continue to monitor the budget and make modifications as needed.

As is outlined in #1 above, the Board and Administration monitor the Budget on an ongoing basis and attempt to modify as necessary.

The timing of when these more significant increases become known as related to the timing of the Budget development is crucial in determining whether we can make the appropriate modifications in the same year or the subsequent year.

3. The Board should develop a comprehensive multiyear financial plan that addresses the declining fund balance.

The District has begun to utilize the ForeCast5 software in projecting multi-year financial plans. Multiple scenarios were built for Board consideration during the FY 2020-2021 Budget development process. The various models outlined the interaction between Estimated Revenues and Appropriations, and the resulting effect on the attempt to rebuild the Fund Balance reserve level. The Proposed FY 2020-2021 Budget, approved by the voters on 6/16/2020, was structured to increase the community support level (via the Tax Levy) and should help address the declining fund balance.

4. The Board and District officials should improve the District's cash flow to reduce its reliance on short-term borrowing.

The actions taken by the Board and Administration, as described in #3 above, should result in additional available funding to support the District's operations. An additional byproduct of the additional support is a projected improvement in cash-flow position, which should reduce or eliminate the need for short-term cash-flow borrowings.

In summary, the District would like to thank the assigned auditors who carried out their work in as non-disruptive a manner as possible during a very busy time in the District's fiscal year. The District is appreciative of the recommendations provided and will strive to implement them to the fullest extent possible.

Sincerely,

James C. Knight, Jr.
Superintendent of Schools

Paul Gilmore
President – Board of Education

Brian Tousignant
School Business Executive

Appendix B: 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 objective⁵ 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, to determine whether the Board adopted multiyear financial plans and a plan to address the declining fund balance.
- We analyzed 2016-17 through 2018-19 general fund operations and fund balance. We evaluated fund balance to determine trends.
- We reviewed the 2016-17 through 2019-20 adopted general fund budgets to determine whether they were realistic based on actual results of operations, historical trends and supporting documentation. We interviewed District officials to identify reasons for significant budget variances.
- We reviewed Board minutes and short-term debt agreements the District had with financial institutions.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

The Board has the responsibility to initiate corrective action. 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-a(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 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 CAP should be posted on the District's website for public review.

⁵ We also issued a separate audit report, *Northern Adirondack Central School District – Leave Accruals* (2020M-50).

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263196&issued=All

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263206&issued=All

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/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/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263211&issued=All

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

www.osc.state.ny.us/local-government

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

GLENS FALLS REGIONAL OFFICE – Gary G. Gifford, Chief Examiner

One Broad Street Plaza • Glens Falls, New York 12801-4396

Tel (518) 793-0057 • Fax (518) 793-5797 • Email: Muni-GlensFalls@osc.ny.gov

Serving: Albany, Clinton, Essex, Franklin, Fulton, Hamilton, Montgomery, Rensselaer, Saratoga, Schenectady, Warren, Washington counties



Like us on Facebook at facebook.com/nyscomptroller

Follow us on Twitter [@nyscomptroller](https://twitter.com/nyscomptroller)