



# Niskayuna Central School District

## Financial Condition

### Report of Examination

Period Covered:

July 1, 2010 — March 31, 2012

2012M-218



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

March 2013

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 Niskayuna Central 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 General Municipal Law.

This audit's results and recommendations 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 Niskayuna Central School District (District) is primarily located in the Town of Niskayuna in Schenectady County. The District is governed by the Board of Education (Board) which comprises 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 the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. Responsibilities relating to the District's finances and accounting records and reports are largely those of the Assistant Superintendent for Business, accounting supervisor, and the Treasurer.

There are eight schools in operation in the District, with approximately 4,100 students attending these schools during the 2011-12 fiscal year. The District has a work force of approximately 750 employees. The District's expenditures for the 2011-12 fiscal year were approximately \$73.7 million, which were funded primarily with real property taxes, State aid, and grants.

## Objective

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

- Are District officials effectively monitoring the District's financial condition to maintain a reasonable level of fund balance?

## Scope and Methodology

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services, and information technology. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine risk existed in the District's financial condition and, therefore, we examined the District's financial condition for the period July 1, 2010, to March 31, 2012.

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 is included in Appendix B of this report.

**Comments of  
District Officials and  
Corrective Action**

The results of our audit and recommendations 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 indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the 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 forwarded to our office within 90 days. 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

A school district's financial condition is a primary factor in determining its ability to continue providing public educational services for students within the district. The Board, Superintendent, and Assistant Superintendent for Business are accountable to taxpayers for the use of District resources and are responsible for effective financial planning and management of district operations. District officials have a responsibility to ensure that their tax burden is not greater than necessary. Therefore, it is essential that officials develop reasonable budgets and manage fund balance responsibly and in accordance with statute. Sound budgeting practices coupled with prudent fund balance management ensures that sufficient funding will be available to sustain operations, address unexpected occurrences, and satisfy long-term obligations or future expenditures.

District officials' appropriation of fund balance in excess of the amount actually available to fund operations resulted in an unassigned fund balance deficit of \$1.5 million as of June 30, 2011. District officials addressed this situation by implementing reductions to budgeted expenditures in the 2011-12 fiscal year. The District's latest annual report shows the deficit was eliminated as of June 30, 2012.

### **Unassigned Fund Balance**

A key measure of the District's financial condition is its level of fund balance, which is the difference between revenues and expenditures accumulated over time. When maintained at reasonable levels, fund balance provides cash flow and can be used to help finance the next fiscal year's operations. The restricted portion of fund balance represents the amount that the District may use only for specific purposes. The unrestricted portion of fund balance is the amount that may be appropriated to fund programs in the next year's budget. In preparing the budget, the Board is responsible for estimating how much fund balance will be available at fiscal year-end. Accurate estimates help ensure that fund balance used toward financing District operations is not budgeted in an amount in excess of what is actually available.

For the fiscal year ended June 30, 2011, the Board planned to use approximately \$4.1 million of fund balance to fund operations of the 2011-12 fiscal year. This amount included \$1.1 million from the debt service, retirement contribution, and tax certiorari reserve funds. The remaining \$3 million was from excess unrestricted fund balance. However, District officials miscalculated the amount of fund balance that would be available at the end of the fiscal year, and they appropriated fund balance in excess of the amount that was actually

available. This resulted in an unassigned fund balance deficit of \$1.5 million. Table 1 illustrates the District's fund balance as of June 30, 2011, and 2012.

<b>Table 1: Fund Balance as of June 30</b>		
	<b>2011</b>	<b>2012<sup>a</sup></b>
Non-Spendable	\$322,600	\$272,167
Workers' Compensation Reserve	\$188,907	\$189,281
Unemployment Insurance Reserve	\$92,339	\$92,555
Retirement Contribution Reserve	\$65,451	\$65,451
Insurance Reserve	\$250,000	\$250,000
Tax Certiorari Reserve <sup>b</sup>	\$1,347,088	\$1,249,461
Compensated Absences Reserve	\$864,223	\$635,771
Debt Reserve <sup>c</sup>	\$1,277,935	\$738,624
Committed Fund Balance	\$619,047	\$0
Assigned Appropriated Fund Balance	\$4,140,299	\$3,854,259
Unassigned Fund Balance	(\$1,523,202)	\$31,244
<b>Total Fund Balance</b>	<b>\$7,644,687</b>	<b>\$7,378,813</b>
<sup>a</sup> 2012 information taken from the District's unaudited ST-3 <sup>b</sup> Balance due to significant certioraris outstanding <sup>c</sup> Reserve used to pay off debt		

When fund balance is assigned as a funding source, the expectation is that there will be a planned operating deficit in the ensuing fiscal year equal to the amount of the assigned, appropriated fund balance. For example, in the 2010-11 fiscal year, District officials budgeted for a \$3,825,000 operating deficit, which was covered through the planned use of fund balance (see Table 2). The actual operating deficit for that year, about \$3,993,000, was close to the budgeted deficit.

For the 2011-12 fiscal year, if actual results had been in line with the budget, the District's total fund balance would have been reduced by \$4.1 million. Instead, the District's reported 2011-12 financial information shows that the District ended the fiscal year with an operating deficit of only about \$265,000, rather than \$4.1 million as originally planned in its adopted budget. This was due mainly to a

positive variance in expenditures, primarily by cutting salary costs. The smaller-than-planned operating deficit for 2011-12 allowed the District to eliminate the unassigned fund balance deficit that existed as of June 30, 2011, and appropriate \$2.5 million of fund balance to finance operations in the 2012-13 fiscal year.

A decline in unassigned fund balance weakens the District’s financial condition and could impact the level of services provided to students in subsequent years. An unassigned fund balance deficit also limits the amount of fund balance that District officials can appropriate to balance subsequent years’ budgets.

**Appropriation of Fund Balance**

It is important that the Board maintain a reasonable amount of fund balance and adopt budgets that include realistic estimates of revenues and expenditures and use surplus fund balances as funding sources when appropriate. A comprehensive, written fund balance policy that addresses the appropriate level of fund balance to maintain and the rationale for establishing reserve funds can help the Board meet these needs.

Historically, the District has appropriated fund balance to fund the subsequent year’s budget. Table 2 illustrates the District’s use of fund balance for the past three budgets:

<b>Table 2: Budgeted Appropriation of Fund Balance</b>			
	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>
Use of Reserves	\$475,000	\$1,084,549	\$1,354,259
Appropriated Fund Balance	\$3,350,000	\$3,055,750	\$2,500,000
Total Planned Use of Fund Balance	\$3,825,000	\$4,140,299	\$3,854,259

Because the Board has not adopted a comprehensive, written policy governing the appropriate level of fund balance to maintain, or the establishment and use of reserve funds, and because District officials have regularly used fund balance to fund budgeted expenditures, we reviewed the 2012-13 budget to determine if the revenue and expenditure estimates were reasonable. The District’s 2012-13 budget includes revenues of \$71.5 million and expenditures of \$75.3 million, which is a \$1.9 million decrease in planned expenditures from the prior year budget. Based on our review of the budgeted revenues and expenditures for 2012-13, we found the projections in the adopted budget to be reasonable.

District officials must remain cognizant that the continual use of fund balance will result in its eventual depletion, requiring other revenue

sources to fund operating expenditures. For example, the District has appropriated \$3,854,259 of fund balance toward 2012-13 fiscal year operations. If actual results are in line with the budget, unreserved fund balance will be reduced to about \$31,000 as of June 30, 2013. An over-reliance on fund balance as a source to finance operations results in a lower tax levy for the current year, but it could also create a situation where the District needs to increase real property taxes if fund balance is no longer available for use in the subsequent year. This situation could result in the need for a tax levy in excess of the amount allowed by the tax cap statute.

## **Recommendations**

1. The Board should adopt a comprehensive fund balance policy that clearly communicates to District taxpayers the Board's decision on the appropriate level of fund balance to maintain, and the purpose and intent for establishing each reserve fund, the manner in which the Board will fund and maintain each reserve fund, the optimal or targeted funding levels for each reserve fund, and the conditions under which the Board will use or replenish the assets in each reserve.
2. District officials should continue to closely monitor the District's use of fund balance to ensure that action is taken, if necessary, to identify other funding sources that can be used if fund balance is no longer available to fund District operations.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



February 22, 2013

Telephone (518) 377-4666, Ext. 50712  
Fax (518) 377-4074

NYS Office of the State Comptroller  
Attn: Principal Examiner  
Division of Local Government and School Accountability  
One Broad Street Plaza  
Glens Falls, NY 12801

Dear Principal Examiner:

This letter is the Niskayuna Central School District's response to the findings outlined in the Comptroller's Office Report of Examination for the period of July 1, 2010 to March 31, 2012 that was reviewed by the District's audit committee during the exit conference that was held January 24, 2013.

**Financial Condition**

The District encountered a series of transactions in 2010-2011 that decreased the unreserved fund balance available for district use in the subsequent year. Those transactions are summarized as follows:

Transfer for Emergency Capital Projects in 2010-2011	\$1,644,356
Reserves used to Reduce the 2011-2012 Tax Levy	\$234,000
Increase in Appropriated Fund Balance for 2011-2012 Budget	\$1,084,000
State-wide Medicaid Imposed Freeze on 2010-11 Reimbursements	\$167,437
Decline in Unreserved Fund Balance in 2010-2011	<u>\$3,129,793</u>
Unreserved Fund Balance as of June 30, 2010	\$1,929,191
Change in 2010-2011 Unreserved Fund Balance	<u>(\$3,129,793)</u>
Unreserved Fund Balance as of June 30, 2011	<u>(\$1,200,602)</u>

The District's unreserved fund balance as of June 30, 2011 is represented in the Comptroller's Report in Table 1 as follows:

Unassigned Fund Balance	(\$1,523,202)
Non Spendable Fund Balance	<u>\$322,600</u>
Total Unreserved Fund Balance	<u>(\$1,200,602)</u>

The District took immediate steps to reduce spending in the 2011-2012 allowing the District to restore the unassigned fund balance at year-end to a positive position of \$17,660.

*Empowering each individual to make responsible choices, meet challenges, achieve personal success, and contribute to a global society.*

(The Comptroller's report reflects an unassigned fund balance of \$31,244 for 2011-2012 based on the District's financial projections at the time of the Comptroller's field work.)

The District took additional steps in developing the 2012-2013 budget reducing its operating budget by \$1.8M from \$77,194,090 to \$75,341,397 in an effort to restore additional unreserved fund balance to provide greater financial stability for future budgets. The District expects to have available approximately \$800,000 in unreserved fund balance as of June 30, 2013.

**District Follow-up**

The District intends to implement a comprehensive fund balance policy to determine appropriate levels of fund balance and reserves as recommended by the Comptroller. The District will continue to monitor projected revenues and expenditures to actual revenues and expenditures in order to make adjustments to spending as necessary in order to maintain an acceptable amount of unreserved fund balance.

The District greatly appreciates being afforded the opportunity to respond to the findings of the Comptroller's Report. The findings shall be used by the District to continue its efforts to deliver quality education to students while maximizing and safeguarding the resources of our schools.

Sincerely,

---

Matthew E. Bourgeois  
Assistant Superintendent for Business

cc: Board of Education  
Superintendent

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services, and information technology.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided on the reported objective and scope by selecting for audit those areas most at risk. We selected financial condition for further audit testing.

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

- We reviewed bank statements and reconciliations to determine the cash balances as of June 30, 2011.
- We reviewed receivable and payable schedules to determine if the reported amounts were accurate as of June 30, 2011.
- We reviewed schedules of other liabilities to determine if the reported amounts were accurate as of June 30, 2011.
- We reviewed restricted fund balances as of June 30, 2011, to determine if they were properly accounted for.
- We compared budgeted data to actual revenues and expenditures to identify significant differences.
- We compared the 2012-13 adopted budget to prior year budgets and actual results to determine the reasonableness of the budgeted revenues and expenditures.

We conducted this performance audit in accordance with generally accepted government auditing standards (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.

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Andrew A. SanFilippo, Executive Deputy Comptroller  
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