



North Greenbush Common School District Budgeting

Report of Examination

Period Covered:

July 1, 2012 – December 31, 2015

2016M-112



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2016

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the North Greenbush Common School District, entitled Budgeting. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results 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 North Greenbush Common School District (District) is located in the Town of North Greenbush, Rensselaer County. The District is governed by the Board of Education (Board), which is composed of three 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 District's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the Board's direction.

The Treasurer is responsible for accounting for all District funds and preparing financial reports for the Board. In addition, the District hired a consultant to help the Treasurer maintain the accounting records and to assist with the preparation of the annual financial report (ST-3 report) that is filed with the New York State Education Department.

The District operates one school for 21 students from kindergarten through first grade. The District has seven full-time and 15 part-time employees.¹ After the first grade, the District pays tuition for its students to attend one of four other school districts.² The District's budgeted expenditures for the 2015-16 fiscal year are \$2.1 million, which are funded primarily with real property taxes and payments in lieu of taxes. Tuition costs for students to attend the other districts accounted for \$1.0 million of the budgeted expenditures.

Objective

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

- Did District officials effectively manage District finances by ensuring budgets were realistic?

Scope and Methodology

We examined the District's budgeting process for the period July 1, 2012 through December 31, 2015.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

¹ The number of part-time employees includes substitute teachers.

² Averill Park School District, Wynantskill Union Free School District, Troy City School District or East Greenbush School District

**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 General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Budgeting

District officials are responsible for preparing and presenting the District's budget, or spending plan, to the public for vote. In preparing the budget, District officials are responsible for estimating what the District will receive in revenue (i.e., State aid) and how much surplus fund balance and reserves, if any, will be available to help fund the ensuing year's operations. District officials must then determine the resulting tax levy. The estimation of fund balance is an integral part of the budget process because a district may only retain a portion of fund balance, referred to as unrestricted fund balance,³ within the limit established by the New York State Real Property Tax Law (Real Property Tax Law). Currently, Real Property Tax Law limits unrestricted fund balance to no more than 4 percent of the ensuing fiscal year's budget. The development of a multiyear financial plan also can assist District officials with the preparation of the budget and provide a framework for preparing future budgets.

District officials did not effectively manage the District's financial condition by ensuring budget estimates were reasonable and based on historical costs and trends. From fiscal years 2012-13 through 2014-15, the District overestimated expenditures by a total of more than \$1.4 million (or 19.6 percent). Due to the overestimated expenditures, the District incurred operating surpluses totaling more than \$900,000 in these three years and did not use any of the \$500,000 appropriated fund balance to fund operations. As a result, the District has accumulated unrestricted fund balance that exceeds the statutory limit by approximately \$1.6 million, or 75 percentage points, as of June 30, 2015. These practices caused the District to levy more taxes than were needed to fund operations.

Budgeting and Fund Balance

In preparing a realistic budget, District officials must accurately estimate revenues, expenditures and the amount of surplus fund balance and reserves that will be available at fiscal year-end, some or all of which may be used to fund the ensuing year's appropriations. After taking these factors into account, the Board establishes the expected tax levy necessary to fund operations. Revenue and expenditure estimates should be developed based on prior years' operating results and trends, anticipated future needs and available information related to projected changes in significant revenues or expenditures.

³ Unrestricted fund balance is the total of the committed, assigned and unassigned fund balance, minus appropriated fund balance, amounts reserved for insurance recovery, amounts reserved for tax reduction and encumbrances included in committed and assigned fund balance.

When fund balance or reserves are appropriated as a financing source, the expectation is that there will be a planned operating deficit in the ensuing fiscal year, financed by the amount of the appropriated fund balance or reserves. Conversely, an operating surplus (when budgeted appropriations are under-expended, actual revenues are greater than estimated or both) increases the total year-end fund balance. Adopting budgets that routinely appropriate fund balance or reserves that are not actually needed is not transparent to District residents.

Budgetary Estimates – We compared the District’s budgeted revenues and appropriations with actual results of operations to determine if the estimates were reasonable. We found the revenue estimates were reasonable. However, District officials consistently presented, and the Board approved, budgets that overestimated appropriations from fiscal years 2012-13 through 2014-15 by a total of \$1.4 million or 19.6 percent, as indicated in Figure 1.

Figure 1: Overestimated Expenditures				
	2012-13	2013-14	2014-15	Totals
Appropriations	\$2,543,277	\$2,505,750	\$2,273,200	\$7,322,227
Actual Expenditures	\$1,898,950	\$2,048,399	\$1,940,979	\$5,888,328
Overestimated Expenditures	\$644,327	\$457,351	\$332,221	\$1,433,899
Percentage of Overestimated Expenditures	25.3%	18.3%	14.6%	19.6%

We analyzed all expenditure accounts to determine if the budgeted appropriations were reasonable based on prior years’ actual expenditures and the District’s current operating needs. Overestimated expenditures were spread amongst numerous accounts throughout the budgets. The largest variances were for special education tuition (\$582,698 or 45.5 percent), regular education tuition (\$484,063 or 18 percent) and pupil transportation (\$151,486 or 14.2 percent).

Fund Balance – As a result of the excessive expenditure estimates, the District realized annual operating surpluses that caused excessive year-end unrestricted fund balance and higher than necessary taxes. The District’s budgets for fiscal years 2012-13 through 2014-15 included appropriated fund balance totaling approximately \$500,000,⁴ which resulted in District officials budgeting for planned operating deficits. However, the District’s budgetary practices resulted in the

⁴ The Board appropriated fund balance as a financing source in its budgets of \$270,515 for 2012-13, \$178,573 for 2013-14 and \$52,600 for 2014-15, for a combined total of \$501,688.

District not using any of the appropriated fund balance and realizing an operating surplus in each of these three years.

The combined operating surpluses for the three years totaled more than \$900,000. These surpluses increased the unrestricted fund balance by more than 250 percent, from \$632,779 as of June 30, 2012 to approximately \$1.7 million as of June 30, 2015. The District's practice of consistently appropriating fund balance that is not needed to finance operations is, in effect, a reservation of fund balance that is not provided for by statute and a circumvention of the statutory limit imposed on the level of the unrestricted fund balance. Adopting budgets that result in the appropriation of fund balance that will not be used causes the District to levy more real property taxes than needed. As a result, the District also accumulated unrestricted fund balance in excess of the statutory limit, as indicated in Figure 2.

Figure 2: Unrestricted Fund Balance at Year-End			
	2012-13	2013-14	2014-15
Total Beginning Fund Balance	\$903,294	\$1,212,616	\$1,506,396
Add Operating Surplus	\$309,322	\$293,778	\$333,577
Total Year-End Fund Balance	\$1,212,616	\$1,506,394	\$1,839,973
Less: Appropriated Fund Balance for Ensuing Year	\$178,573	\$52,600	\$175,275
Unrestricted Funds at Year-End	\$1,034,043	\$1,453,794	\$1,664,698
Ensuing Year's Budgeted Appropriations	\$2,505,750	\$2,273,200	\$2,101,560
Unrestricted Funds as Percentage of Ensuing Year's Budget	41.3%	64%	79.2%

2015-16 Budget – We also reviewed the District's adopted 2015-16 budget totaling approximately \$2.1 million and determined that the budgeted appropriations were reasonable. We projected that the District will realize a planned operating deficit at year-end totaling at least \$175,275 and, therefore, the District will use the entire \$175,275 of appropriated fund balance. As a result, the year-end fund balance will decrease in comparison with the prior year. The 2015-16 budgeted expenditures were more reasonable than prior year budgets because the current Superintendent and Board analyzed changes in student enrollment, past expenditure trends and prior years' operating results when preparing the 2015-16 budget. In addition, we noted that the District reduced its tax levy by 15 percent from 2014-15 to 2015-16 (from \$1,218,311 in 2014-15 to \$1,036,000 in 2015-16).

The District's budgeting practices resulted in the retention of unrestricted fund balance in excess of the amount allowed by law and the taxes being higher than necessary by approximately \$1.6 million.

Multiyear Financial Planning

Multiyear financial planning is a tool that school districts can use to improve the budget development process. Multiyear financial plans project operating needs and financing sources over a three- to five-year period. Planning on a multiyear basis allows District officials to identify developing revenue and expenditure trends, establish long-term priorities and goals and consider the impact of current budgeting decisions on future fiscal years. Any multiyear financial plan should be monitored and updated on a continuing basis to provide a reliable framework for preparing budgets and to ensure that decisions are guided by the most current and accurate information available.

District officials did not develop a multiyear financial plan. Had such a plan been developed, District officials would have had a valuable resource that would have allowed them to make more informed financial decisions during the budget process. This could have prevented the District's accumulation of unrestricted fund balance in excess of the statutory limit. The development of a financial plan would be a useful tool for District officials to address the reduction of the District's unrestricted fund balance to within the statutory limit.

Recommendations

The Board should:

1. Adopt budgets that include realistic expenditure estimates.
2. Discontinue the practice of adopting budgets that result in the appropriation of fund balance that is not used to finance District operations.
3. Reduce the amount of the District's unrestricted fund balance so that it is in compliance with Real Property Tax Law statutory limits and the Board's fund balance policy. Unrestricted fund balance reductions should be made in a manner that benefits District residents. Such uses could include, but are not limited to, reducing District property taxes, paying off debt or financing one-time expenditures.

District officials should:

4. Develop a multiyear financial plan and monitor and update the plan on an ongoing basis.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



NORTH GREENBUSH COMMON SCHOOL DISTRICT

476 North Greenbush Road • Rensselaer, New York 12144 • Phone (518) 283-6748

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS, INCLUDING CORRECTIVE ACTION PLAN

The North Greenbush Common School District is in receipt of the Draft Budget Report conducted on the period of July 1, 2012-December 31, 2015. We would like to thank the audit personnel for their professionalism and diligence in reviewing our district's records and we appreciate the feedback provided by the Comptroller's Office.

We are committed to providing a rich academic program for our students while also being fiscally responsible. We have made significant changes in our budgeting practices over the past 3 years as evidenced below.

During the 2012-2013 school year, the Board approved/directed:

- The review and evaluation of historical data to assist with the proper development of district budgets going forward
- The authorization of an Independent Audit
- The development of the 2013-2014 Budget, which shows the beginning of a series of significant budget decreases that followed over the next 3 years

During the 2013-2014 school year, the Board approved/directed

- A formal Risk Assessment Audit be conducted during the summer of 2013
- The Superintendent to provide the process for addressing and correcting the items identified in the Audit Report
- They receive an annual report of budgeted vs. actual expenditures
- The adoption of the 2014-2015 budget which reduced the budget by \$232,550—a 9.3% decrease, which carried a 0% tax levy increase

During the 2014-2015 school year, the Board approved/directed

- The reduction of the remaining overestimated expenses in the 2015-2016 budget by an additional 7.55% (-\$171,640).
- The tax levy to be reduced by 15%

During the 2015-2016 school year, the Board approved/directed:

- The development of a 5 year fiscal plan as part of the District's Annual Goals
- The Superintendent to complete negotiations of 3 year contracts with neighboring districts for tuition and transportation, which represents 65% of our overall budget
- The adoption of the 2016-2017 budget which decrease the budget about 1% and approves a 0% increase in the tax levy.

NGC District Corrective Action Plan: Four Recommendations

The Board should:

- 1) Adopt budgets that include realistic expenditure estimates

As outlined in our response to this audit, the Board put into place significant changes over the past 3 years in order to develop accurate and realistic budgets. Specifically, we have established financial systems, defined our operational practices and created accountability measures which are continually monitored. The result is that we now have accurate and usable data which can be analyzed and updated as needed during the budget development process. This allowed the district to:

- Cut the overestimated budgetary expenses in half between the 2012-2013 and the 2014-2015 budgets
- Cut the remaining overestimated expenses in the 2015-2016 budget
- Move from being 25% over budgeted in the 2012-2013 budget to being on budget in 2015-2016

Our 2015-2016 budget was deemed reasonable by the auditor and our 2016-2017 budget is on the same track. By following these established practices, we expect that our future budgets will continue to be realistic.

- 2) Discontinue the practice of adopting budgets that result in the appropriation of fund balance that is not used to finance District operations

Over the past 3 years, the district has been using historical data such as student enrollment trends, tuition patterns and expenditure trends in order to more accurately develop operating budgets. Together with establishing 3 year tuition and transportation rates, these measures greatly enhance our ability to develop more accurate, predictable budgets so we can more properly appropriate fund balance to future budgets. The 2015-2016 budget is expected to use appropriated fund balance and the 2016-17 budget carries a slightly higher appropriation of fund balance as well.

- 3) Reduce the amount of the District's unrestricted fund balance so that it is in compliance with Real Property Tax Law statutory limits and the Board's fund balance policy. Unrestricted fund balance reductions should be made in a manner that benefits District residents. Such uses could include, but are not limited to, reducing District property taxes, paying off debt or financing one-time expenditures.

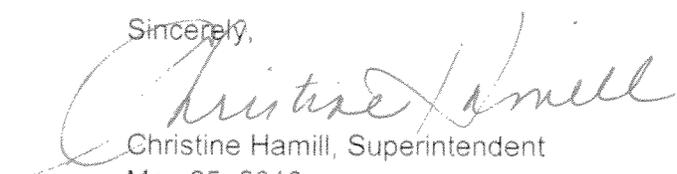
As indicated in the above responses for recommendations 1 and 2, the district has begun a process to develop realistic budgets and to use allocated fund balance as a way to continue off-set tax levies in the future. The district has no debt to address.

District Officials should:

- 4) Develop a multiyear financial plan and monitor and update the plan on an ongoing basis

The District's Adopted Goals this year include the development of a 5-year Fiscal Plan which is being completed to be presented to the Board at its Meeting in July. This plan will be updated on a yearly basis and used as a tool for the proper planning and management of the district's budgets.

Sincerely,



Christine Hamill, Superintendent
May 25, 2016

cc Board of Trustees

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to examine the District's budgeting process for the period July 1, 2012 through December 31, 2015. To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed the Superintendent and the Treasurer to gain an understanding of the District's financial management policies and procedures. This included inquiries about the District's budgeting practices, the adoption of a fund balance policy and the preparation of a multiyear financial plan.
- We compared the adopted general fund budgets for fiscal years 2012-13 through 2014-15 with the actual results of operations to determine if the budgets were realistic.
- We analyzed the District's general fund financial records for fiscal years 2012-13 through 2014-15 to determine if the appropriation of fund balance resulted in planned operating deficits and a decline in fund balance.
- We calculated the general fund's unrestricted fund balances at fiscal year-end 2012-13, 2013-14 and 2014-15 and its percentage of the ensuing year's budgeted appropriations to determine if the District was in compliance with Real Property Tax Law statutory limits.
- We reviewed the adopted general fund budget for the 2015-16 fiscal year to determine whether the budgeted revenues and appropriations were reasonable based on historical data and supporting source documents. We also projected the budgeted revenues and appropriations through the end of the 2015-16 fiscal year to determine the budget variance.

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

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