



# Westmoreland Central School District Financial Condition

## Report of Examination

Period Covered:

July 1, 2013 — June 30, 2014

2014M-283



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**

December 2014

Dear District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support school district operations. The Comptroller oversees the fiscal affairs of school districts statewide, as well as 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 operations and Board of Education governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard school district assets.

Following is a report of our audit of the Westmoreland 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 New York State General Municipal Law.

This audit's results and recommendations are resources for school 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 Westmoreland Central School District (District) is located in the Towns of Vernon, Westmoreland and Whitestown and the City of Rome in Oneida County. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board President is the chief financial officer. The Board is responsible for the general management and control of District 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 District's day-to-day management under the Board's direction.

The District operates three schools with approximately 950 students and 145 employees. For the 2014-15 fiscal year, the District's operating budget is approximately \$20 million funded primarily with State aid and real property taxes.

## Objective

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

- Did the Board adopt realistic budgets and take appropriate action to maintain the District's financial stability?

## Scope and Methodology

We examined the District's financial records for the period July 1, 2013 through June 30, 2014. We extended our scope back to July 1, 2011 to analyze the District's fund balance, budgeting and financial trends.

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 New York State Education Law, and Section 170.12 of the New York State 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.

## Financial Condition

Fund balance represents the cumulative residual resources from prior fiscal years. Fund balance can be used in several ways, including to lower real property taxes for the next fiscal year, to help with cash flow to pay for unexpected expenditures or set aside and reserved to finance future costs for a variety of specified objects or purposes. However, New York State Real Property Tax Law requires that unrestricted fund balance<sup>1</sup> not exceed 4 percent of the ensuing year's budgeted appropriations.

The Board and Superintendent are responsible for adopting budgets that contain estimates of actual and necessary expenditures to be funded by planned realistic revenues. Sound budgeting provides sufficient funding for necessary operations. Prudent fiscal management includes establishing reserves needed to address long-term obligations or planned future expenditures. Once the Board has addressed those issues, any remaining fund balance, exclusive of the amount allowed by law to be retained to address cash flow and unexpected occurrences, should be used to reduce the local real property tax levy.

District officials did not develop reasonable budgets. Revenue estimates were generally close to the actual revenues received. However, over the last three fiscal years, the District spent nearly \$5 million less than planned and did not use any of the appropriated fund balance that it budgeted to finance operations (an average of \$1.5 million over the last three years). From 2011-12 through 2013-14, the District's total fund balance increased by more than \$885,000 (25 percent),<sup>2</sup> while the real property tax levy increased by about \$536,000 (10 percent).

District officials reported year-end unrestricted funds at levels that essentially complied with the 4 percent statutory limit. However, by consistently overestimating expenditures and appropriating fund balance that was not used to fund operations, the District's actual unrestricted fund balance<sup>3</sup> totaled almost three times the amount

<sup>1</sup> Appropriated fund balance, encumbrances and amounts reserved for insurance recovery and tax reduction should be subtracted from year-end unrestricted fund balance to arrive at total unrestricted fund balance subject to the 4 percent limitation.

<sup>2</sup> Total fund balance as of July 1, 2011 was \$3,490,509. It increased to \$4,375,779 as of June 30, 2014.

<sup>3</sup> Unrestricted funds at year-end plus the appropriated fund balance not used to fund District operations.

allowed by law. Consequently, the District’s real property tax levies were greater than necessary to fund operations.

**Fund Balance** – The District reported year-end unrestricted fund balance at levels that were close to the 4 percent limit for the 2011-12 through 2013-14 fiscal years. This was accomplished, in part, by appropriating fund balance and funding reserves at year-end. District officials appropriated fund balance over the past three fiscal years, which should have resulted in planned operating deficits. However, because the District significantly overestimated expenditures in its adopted budgets, it experienced operating surpluses in each of those three years and did not need the appropriated fund balance included in each year’s budget. For that period total actual revenues exceeded expenditures by more than \$885,000 and none of the \$4.5 million of appropriated fund balance was used to finance operations. These practices gave the appearance that the District’s unrestricted fund balance was within the legal limit, when, in fact, it exceeded that limit each year.

**Figure 1: Unrestricted Funds at Year-End**

	2011-12	2012-13	2013-14
Beginning Fund Balance	\$2,247,581	\$2,519,171	\$2,347,896
Plus: Operating Surplus	\$471,590	\$247,987	\$165,693
<b>Unrestricted Funds – Subtotal</b>	<b>\$2,719,171</b>	<b>\$2,767,158</b>	<b>\$2,513,589</b>
Less: Appropriated Fund Balance	\$1,600,000	\$1,450,000	\$1,450,000
Less: Transfers to Reserves	\$200,000	\$419,262	\$229,267
Less: Encumbrances	\$69,785	\$129,489	\$31,075
<b>Total Unrestricted Funds at Year-End</b>	<b>\$849,386</b>	<b>\$768,407</b>	<b>\$803,247</b>
Next Year’s Budget	\$18,394,566	\$19,258,340	\$20,081,181
Reported Unrestricted Funds as Percentage of Next Year’s Budget	4.6%	4.0%	4.0%
<b>Actual Unrestricted Funds Resulting From Unused Appropriated Fund Balance</b>	<b>\$2,449,386</b>	<b>\$2,218,407</b>	<b>TBD<sup>a</sup></b>
Actual Unrestricted Funds as Percentage of Next Year’s Budget	13.3%	11.5%	TBD

<sup>a</sup> The actual unrestricted funds at June 30, 2014 is to be determined (TBD). District officials will not know whether the \$1,450,000 in appropriated fund balance at the end of 2013-14 was used during the 2014-15 fiscal year until the fiscal year-end.

At the end of 2013-14, the District transferred \$229,267 to reserves and appropriated \$1,450,000 of fund balance to help finance the 2014-15 budget, which resulted in reported unrestricted fund balance of \$803,247 as of June 30, 2014 (4 percent of 2014-15 appropriations). However, if the District experiences similar operating results during 2014-15 as in prior years, it will incur an operating surplus and again retain appropriated fund balance that will not be used to finance operations. Therefore, actual unrestricted fund balance as of June 30, 2014 could total about \$2.25 million or 11.2 percent of the 2014-15 budget, nearly three times the amount allowed by law.

District officials also used unrestricted funds to fund reserves at year-end to avoid exceeding the statutory limit. Reserve fund balances increased by about \$850,000 over the last three years.<sup>4</sup> We found current District reserve amounts to be reasonable. However, ideally, and to be more transparent, District officials should plan to fund reserves during the budget process.

Budgeting – Each year, the annual budget included using fund balance to finance operations to keep the real property tax levies at amounts the Board considered reasonable. This budgeting practice made it appear that the District needed to raise real property taxes and use unrestricted fund balance to close projected budget gaps. However, actual revenues exceeded expenditures by an average of about \$295,000 per year and appropriated fund balance (about \$1.5 million per year)<sup>5</sup> was not used in any year to finance operations.

The District incurred operating surpluses each year because the Board did not use realistic budget estimates. We compared the District’s budgeted revenues and expenditures with actual results of operations for fiscal years 2011-12 through 2013-14. The District’s revenue estimates were reasonable and generally close to the actual revenues received. However, on average, the District’s spent about \$1.6 million less than planned each year.

**Figure 2: Overestimated Expenditures**

Fiscal Year	Budget Appropriations	Actual Expenditures	Overestimated Expenditures
2011-12	\$17,889,941	\$15,624,458	\$2,265,483
2012-13	\$18,394,566	\$17,114,078	\$1,280,488
2013-14	\$19,258,340	\$17,896,839	\$1,361,501

Expenditure variances were driven primarily by overestimating personal services expenditures, which should be predictable because they are generally based on fixed contracts. For example, 2013-14 salary expenditures were \$888,195 lower than estimates and employee benefits expenditures were \$479,921 lower than estimates. The Business Official told us the Board is conservative in its budget estimates due to the unpredictability of State aid revenues and rising costs. In addition, the Board uses prior year estimates instead of prior year actual results, which also contributes to the Board overestimating expenditures each year.

<sup>4</sup> From 2011-12 through 2013-14, District officials increased the retirement contribution reserve by \$429,267 and increased the repair reserve by \$419,261.

<sup>5</sup> Appropriated fund balance was included as a financing source in each years’ budgets (\$1,503,139 for 2011-12, \$1,600,000 for 2012-13 and \$1,450,000 for 2013-14).



In addition, it appears District officials have continued the practice of overestimating expenditures because the District's 2014-15 adopted budget totals \$20 million in budget appropriations (an increase of \$823,000 from the previous fiscal year's budget and about \$2.2 million from the previous year's actual results). Given the three-year historical average, it is likely the District will again generate an operating surplus for the 2014-15 fiscal year similar to those generated during the previous three fiscal years, because at no time during this period did actual expenditures exceed \$18 million.

The District's practice of consistently overestimating expenditures and appropriating fund balance that was not needed to finance operations can reduce transparency to taxpayers. Instead of decreasing the unrestricted fund balance as planned, it further increases the amount of accumulated fund balance. Had District officials used more realistic budget estimates, they could have avoided accumulating excess fund balance and possibly reduced the real property tax levy.

## **Recommendations**

The Board should:

1. Develop a plan to reduce the amount of unrestricted fund balance in a manner that benefits District taxpayers. Such uses could include, but are not limited to:
  - Increasing necessary reserves,
  - Paying off debt,
  - Financing one-time expenditures and
  - Reducing District property taxes.
2. Develop and adopt budgets that include reasonable estimates for expenditures and discontinue the practice of adopting budgets that result in appropriating fund balance that will not be used to fund operations.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



# estmoreland

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November 19, 2014

Office of the State Comptroller  
Attn: Rebecca Wilcox, Chief Examiner  
State Office Building, Room 409  
333 E. Washington Street  
Syracuse, NY 13202-1428

Dear Chief Examiner Wilcox:

The Westmoreland Central School District is in receipt of the draft audit report of financial condition for the period July 1, 2013-June 30, 2014. The Board of Education and the District Administration of the school district would like to begin by thanking the examiners for their patience and help through the process.

We are pleased to note that *no fraud or mismanagement* was identified through this process. The report noted that the “Board and the Superintendent of schools are responsible for adopting budgets that contain *estimates of actual and necessary expenditures* to be funded by *planned realistic revenues*”. In addition the report states that “prudent fiscal management includes establishing reserves needed to address long-term obligations or planned future expenditures.” We are pleased that we share the same philosophy with the Comptroller’s office.

In addition, the Comptroller’s Local Government Management Guide, Financial Condition Analysis, defines the financial condition on page 2, as the ability of a school district to balance recurring expenditure needs with recurring revenue sources, while providing services on a continuing basis. It goes on to state that a community in good financial condition generally maintains adequate service levels during fiscal downturns, identifies and adjusts to long-term economic or demographic changes, and develops resources to meet future needs.

The Board of Education and the District Administration work diligently to plan budgets, to estimate actual expenditures and revenues, to anticipate future drastic cuts in school aid, to establish reserves to meet long-term obligations, to balance recurring expenditures with recurring revenue sources as well as decreases in those revenues, to maintain all programs that benefit kids and to anticipate long-term economic changes. To that note, we certainly agree with the responsibilities that the Comptroller believes to be those of the Board of Education and the District Administration. We also agree with the

Comptroller's definition of financial condition and are proud that we have taken these roles seriously and have continued to offer a high quality educational experience to the students of the Westmoreland Central School District while remaining good stewards of the taxpayer's money.

Over the past five years many changes have taken place in education, none more dramatic than the substantial cuts in school aid. To date the Westmoreland Central School District has lost a total of \$6,691,908 in both GEA (Gap Elimination Adjustment) and the DRA (Deficit Reduction Assessment), has had minimal increases in foundation aid and has adopted a Board of Education-imposed tax levy limit. In spite of this, we have been able to balance budgets, maintain programs and avoid large fluctuations in taxes by negotiating hard pay freezes and increased health insurance contributions from all employees in 2011-2012 (saving the district over \$500,000 in that year alone), by not filling 18 positions that were a result of lay-offs or attrition and by making substantial cuts to supplies, equipment and professional development throughout each of the past five budget years.

The Board of Education and District Administration believe that extremely conservative budgeting, prudent planning and the ability to avoid spikes in taxes have helped to create both a fair and transparent budgetary process that has served the students and the taxpayers of the community extremely well.


The draft audit reports that although the revenues have been fairly estimated the expenditures have been over stated. Although the Board of Education and District Administration feel as though this conservative approach is extremely prudent and has helped the district to weather the fiscal storm of the past five years, they will take this suggestion and work with a fiscal advisor to develop a five year spending plan.

The draft audit also notes that the appropriated fund balance has grown in the past few years as the actual expenditures have been over stated. The fund balance has grown because of the reasons previously stated and because the district has been extremely apprehensive about placing any money into restricted reserves until the fiscal condition of New York State improves to a point where state aid can be adequately predicted and the threat of GEA eliminated. The appropriated fund balance, although large in the eyes of the Comptroller's office, will help the district to avoid spikes in taxes and to make-up for projected losses in foundation aid in coming years.

The Board of Education and District Administration appreciate the recommendation in this audit and have already spoken with their External Auditor and an independent financial advisor about them. We are pleased that the District has received unmodified external audits with no significant deficiencies or material weaknesses. The financial advisor has agreed to work with the district in developing a five year fiscal plan. This plan will be made available to the public once completed.

Once again, we thank you for your professionalism and for the suggestions. We will use this as an opportunity to reexamine our long range fiscal plan and to continue to plan for the future unanticipated needs.

  
Sincerely,

  
Rocco Migliori  
Superintendent

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed District officials and employees, tested selected records and examined pertinent documents for the period July 1, 2013 through June 30, 2014. To analyze the District's historical financial condition and budgeting practices, we extended our audit scope back to July 1, 2011. Our examination included the following:

- We interviewed District officials and reviewed the Board meeting minutes, resolutions and budget policies to gain an understanding of District budget development and budget monitoring process.
- We calculated the results of operations over the last three fiscal years by comparing actual revenues with actual expenditures.
- We analyzed the trend in total fund balance, including the use of appropriated fund balance, in the general fund for the 2011-12 through 2013-14 fiscal years. We also compared the reported unrestricted fund balance with the next years' budget appropriations to determine if the District was within the statutory limitation.
- We evaluated whether the planned uses for appropriated fund balances were reasonable and if the amounts appropriated were actually used to fund operations. We calculated the actual unrestricted fund balance each year in which a deficit did not occur as planned. We determined if this amount was greater than the statutory limits as defined by law.
- We compared the general fund's total estimated revenues and budget appropriations with the actual revenues and expenditures for the 2011-12 through 2013-14 fiscal years to determine if District budgets appeared reasonable.
- We examined the budget appropriation line items for the 2013-14 fiscal year to determine which line items accounted for the majority of the overbudgeted variances. After we identified the expenditure categories accounting for the majority of these variances, we calculated the budget variances for those expenditures for the 2011-12 and 2012-13 fiscal years to identify trends.
- We reviewed the real property tax levy and assessment trends for the 2011-12 through 2013-14 fiscal years.
- We evaluated the reasonableness of reserve amounts by reviewing Board minutes, retirement bills, District's calculations of related liabilities and the supporting documentation.
- We reviewed documents related to the District's long-term planning.

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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