



# Weedsport Central School District Financial Management

## Report of Examination

Period Covered:

July 1, 2012 – March 1, 2016

2016M-94



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

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 Weedsport Central School District, entitled Financial Management. 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 Weedsport Central School District (District) is located in the Towns of Brutus, Cato, Conquest, Mentz, Sennett and Throop in Cayuga County. The District is governed by the Board of Education (Board), which is composed of five 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 District's day-to-day management under the Board's direction. The Assistant Superintendent for Business and Finance is responsible for overseeing the District's financial operations, under the direction of the Superintendent and Board.

The District has two schools in operation, an elementary school and a junior/senior high school, with approximately 800 students and 150 full- and part-time employees. During the 2014-15 fiscal year, the District had operating expenditures of approximately \$17.56 million, funded primarily by State aid and real property taxes. The District's budgeted general fund appropriations for the 2015-16 fiscal year were approximately \$19.06 million.

## **Objective**

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

- Did District officials adequately manage the District's financial condition?

## **Scope and Methodology**

We evaluated the District's financial management for the period July 1, 2012 through March 1, 2016.

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.

## **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.

## Financial Management

District officials are accountable to District residents for the use of District resources and are responsible for effectively planning and managing District operations. District officials have a responsibility to provide required services in a cost-efficient manner to ensure tax dollars are spent prudently and economically. Legislation passed in 2011 limits the ability of school districts to raise taxes.<sup>1</sup> New York State Real Property Tax Law also limits the amount of unrestricted fund balance school districts may retain to no more than 4 percent of the ensuing year's budgeted appropriations. Therefore, it is essential that officials develop reasonable budgets and seek opportunities to reduce costs and manage fund balance responsibly.

District officials should also develop comprehensive multiyear financial and capital plans to estimate the future costs of ongoing services, upcoming expenditures and capital needs. Sound policies and procedures coupled with prudent fund balance management and multiyear planning help to ensure that sufficient funding is available to sustain operations, address unexpected occurrences and satisfy long-term obligations or future capital expenditures.

District officials have generally taken appropriate action to manage the District's financial condition and are planning to increase future fund balance. From fiscal years 2012-13 through 2014-15, District officials typically prepared accurate budgets that generated minimal operating surpluses or planned operating deficits. To maintain programs and manageable tax increases, while dealing with the loss of \$3.49 million in State aid, District officials used fund balance and interfund transfers to finance general fund operations. Because of this practice, the District's 2014-15 unrestricted fund balance decreased to 1.2 percent of 2015-16 budgeted appropriations.

District officials acknowledged the decline in unrestricted fund balance and developed a plan to increase it to between 3 and 4 percent of the ensuing year's budget. District officials started to implement this plan by addressing the District's reliance on non-recurring revenues as a financing source. Therefore, District officials reduced interfund transfers in the annual budgets by approximately \$445,000 during the audit period and implemented certain cost savings measures. As a result of these efforts, we project that the District will end 2015-16 with a modest operating surplus<sup>2</sup> that will increase unrestricted fund

<sup>1</sup> School districts are limited to an annual tax levy increase of 2 percent or the rate of inflation, whichever is lower, without a 60 percent majority approved voter override of the limit.

<sup>2</sup> After planned interfund transfers are made

balance. In addition, the District has developed multiyear financial and capital plans. However, including more details in these plans, such as funding sources, would benefit the District as it faces current and future economic and environmental challenges.

## Financial Condition and Cost Savings

Financial condition can be defined as a school district's ability to balance recurring expenditures with recurring revenues while providing services on a continuing basis. Financial condition is affected by the estimates included in the annual budget. District officials should continually evaluate their operations to identify areas of potential cost savings or revenue enhancements and assess the extent to which implementation may result in actual savings. This will help them to address changing budget trends or needs.

In general, District officials prepared accurate budgets which generated minimal operating surpluses or planned operating deficits from fiscal years 2012-13 through 2014-15. District officials maintained programs and limited tax increases by relying on non-recurring revenues, such as fund balance and interfund transfers,<sup>3</sup> as a financing source for operations. As a result, the District's unrestricted fund balance was reduced to 1.2 percent of the ensuing year's budgeted appropriations as of June 30, 2015, as indicated in Figure 1.

<b>Figure 1: General Fund Operating Results and Fund Balance</b>				
	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>Totals</b>
<b>Operating Results</b>				
Revenues	\$16,408,193	\$16,796,336	\$16,979,199	<b>\$50,183,728</b>
Expenditures	\$16,766,445	\$16,707,368	\$17,563,888	<b>\$51,037,701</b>
Operating Surplus/(Deficit)	(\$358,252)	\$88,968	(\$584,689)	<b>(\$853,973)</b>
<b>Fund Balance</b>				
Beginning Fund Balance	\$2,879,526	\$2,496,982	\$2,585,950	
Prior Period Adjustments	(\$24,292)	\$0	\$0	
Year-End Fund Balance	\$2,496,982	\$2,585,950	\$2,001,261	
Appropriated Fund Balance	\$564,500	\$564,500	\$564,500	
Assigned Unappropriated Fund Balance	\$116,062	\$224,932	\$84,196	
Restricted Fund Balance	\$1,361,968	\$1,361,968	\$1,130,880	
Unrestricted Fund Balance	\$454,452	\$434,550	\$221,685	
Unrestricted Fund Balance as a Percentage of Ensuing Year's Budgeted Appropriations	2.5%	2.3%	1.2%	

<sup>3</sup> As a best practice, non-recurring or one-time revenues should be used to finance one-time expenditures and not ongoing operational costs.

From fiscal years 2012-13 through 2015-16, the District experienced a decrease of approximately \$3.49 million (10 percent) in State aid. Additionally, legislation which limits the ability of school districts to raise taxes<sup>4</sup> also existed during this period. Rather than raise taxes to the maximum levy limit allowed under this legislation,<sup>5</sup> the Board maintained tax increases that were below the limit and used fund balance to finance the difference.

District officials developed annual fiscal priorities to address the District's financial condition. For 2015-16, the District's fiscal priorities<sup>6</sup> are to increase unrestricted fund balance, address the structural deficit<sup>7</sup> and manage debt service. District officials have worked to decrease the structural deficit from 2012-13 through 2015-16 by reducing budgeted interfund transfers by approximately \$445,000 (59 percent). We project the District is on track to realize a modest operating surplus at the end of 2015-16,<sup>8</sup> which will result in no need to use fund balance during this fiscal year and allow the District to increase its unrestricted fund balance level.

District officials implemented multiple cost savings and efficiency measures during the audit period to maintain programming and keep tax increases manageable, including the following:

- District officials implemented an energy performance contract, resulting in about \$71,000 in savings during the audit period and an additional \$405,000 in savings projected through 2018-19.
- District officials reduced positions through attrition by either replacing 1.0 full-time equivalent (FTE) positions with 0.5 FTE positions or eliminating a position and combining the job responsibilities with that of another position. These staffing reductions resulted in savings of approximately \$167,000.
- District officials joined a health insurance consortium that resulted in about \$40,000 in savings. District officials also changed workers' compensation insurance providers, resulting in an annual savings of \$8,000. District officials also anticipate much lower increases in premiums in future years

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<sup>4</sup> Also referred to as the "tax cap"

<sup>5</sup> Without a super majority (60 percent) approval

<sup>6</sup> The District has opted to maintain the same fiscal priorities for fiscal year 2016-17, as noted at the following link: <http://www.weedsport.org/files/52414/fiscal%20priorities%2016-17%20version%202%200.pdf>

<sup>7</sup> Structural deficits refer to long-term gaps that are likely to arise between projected revenue growth and estimated cuts in services.

<sup>8</sup> After planned interfund transfers are made



due to the District's involvement with the health insurance consortium.

- The District contracted with the Onondaga-Cortland-Madison Board of Cooperative Educational Services for certain information technology services.

District officials also prepared a cost-benefit analysis for bus purchases, which they presented to the public each year to support the annual bus purchase propositions. This analysis compares the costs of purchasing new buses to the costs of maintaining older buses in the District's fleet. District officials also include the State aid anticipated for the purchase of buses in this analysis, along with the net cost to the residents.

Overall, District officials have attempted to mitigate the effects of economic challenges in managing the District's financial condition. District officials created budgets that took into consideration historical trends and realized planned operating deficits to weather difficult financial times. District officials are also taking steps to ensure that fund balance will be sufficient to fund future operations.

## **Multiyear Planning**

It is important for District officials to develop comprehensive multiyear financial and capital plans to estimate the future costs of ongoing services and capital needs. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period and allow District officials to identify developing revenue and expenditure trends, set long-term priorities and goals, and avoid large fluctuations in tax rates. Multiyear plans also allow District officials to assess the effect and merits of alternative approaches to address financial issues such as the use of unrestricted fund balance to finance operations and the accumulation of money in reserve funds. Long-term financial plans work in conjunction with Board-adopted policies and procedures to provide the necessary guidance to employees on the financial priorities and goals set by District officials. Additionally, to be most effective, District officials must monitor and update long-term plans on an ongoing basis to ensure that decisions are guided by the most accurate information available.

District officials developed a multiyear financial plan that includes projections for revenues and expenditures, which they update regularly and use to prepare the annual budget. District officials also developed several long-term capital planning documents, including a five-year capital facilities plan, long-range capital plans,<sup>9</sup> maintenance and

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<sup>9</sup> The District has developed an overall long-range capital plan, as well as a long-range plan that includes only annual capital outlay projects.

operations vehicle replacement plan and bus replacement schedule. District officials have a building condition survey every five years that also helps to identify capital improvements and maintenance needs. District officials regularly discuss long-term planning and keep the public apprised of the District's plans.

However, District officials have not developed formal plans detailing the District's intentions for the accumulation and use of fund balance and reserve funds. The District is not maintaining substantial reserve balances overall or in its individual reserve funds. As of June 30, 2015, the District's reserve fund balances totaled \$1.13 million, or approximately 11 percent of total budgeted appropriations. In general, the District has not funded or used reserves during the audit period.<sup>10</sup> District officials have not formally analyzed the balances in reserve funds to determine if the amounts are appropriate for the District's needs, but indicated that they discussed reserve fund balances during the last fiscal year. Additionally, the District's fiscal priorities outline a goal of establishing an unrestricted fund balance of 3 to 4 percent of the ensuing year's budgeted appropriations as reasonable. However, District officials have not developed any specific plans that detail how the District intends to increase the current level of unrestricted fund balance or how it intends to use fund balance in the future.

In addition, the District's building condition survey has identified the need for several costly capital improvement projects, some of which are included in the \$14.9 million voter-approved capital improvement project.<sup>11</sup> The District intends to use the \$315,000 in the capital reserve to fund a portion of this project. On average, the District's local share<sup>12</sup> of capital improvement projects was approximately 17 percent or \$460,000,<sup>13</sup> and is anticipated to remain fairly stable for the foreseeable future due to the District's efforts in aligning retiring debt with new debt issuance. District officials have not developed any formal plans for how they intend to fund the local share and have historically issued debt for this portion of capital improvement projects rather than funding them through capital reserve funds. The District's current long-term plans do not include its intentions for how the local share of capital improvement projects or purchases will be financed.

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<sup>10</sup> With the exception of the repair reserve, which the Board has approved dissolving.

<sup>11</sup> This project was approved December 2015 and includes maintenance and renovations to the District's aging facilities, including the HVAC system, ceilings, bathrooms and fitness center.

<sup>12</sup> The portion of approved project costs for which the District does not receive State aid.

<sup>13</sup> From 2012-13 through 2015-16

Developing more comprehensive long-term plans will help the District to be adequately prepared for any potential adverse economic or environmental changes.

## **Recommendations**

District officials should:

1. Continue to reduce the District's reliance on non-recurring revenues, such as fund balance and interfund transfers, as financing sources in the annual budgets.
2. Continue to closely monitor the District's financial condition and identify additional opportunities for cost savings and efficiencies.
3. Develop and adopt comprehensive multiyear financial and capital plans for a three- to five-year period that address the funding, use and maintenance of fund balance and reserves, specific timelines and funding sources for capital improvement projects and purchases, and any economic or environmental factors that could affect the plans.
4. Analyze reserve funds to ensure balances are best aligned with the District's long-term needs.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



# Weedsport Central School District

2821 East Brutus Street  
Weedsport, New York 13166-9105



**Shaun A. O'Connor, Superintendent of Schools**  
**(315) 834-6637**

**Douglas M. Tomandl, Asst. Supt. for Bus. & Fin.**  
**(315) 834-6637 (fax)**

May 19, 2016

Edward V. Grant Jr., Chief Examiner  
Division of Local Government and School Accountability  
Office of the State Comptroller  
16 West Main Street  
Rochester, New York 14614

Dear Chief Examiner Grant:

This letter is in response to the *Draft Report of Examination: Financial Management* that was reviewed and discussed at the exit conference held on May 19, 2016 which included, in attendance, members of your staff, a member of the Weedsport Central School District Board of Education, myself, and the Assistant Superintendent for Business and Finance. I firmly believe that it is the opinion of all that this process and the subsequent outcomes will have a positive impact on our school district.

The District is in agreement with the findings included in the report. We have worked diligently and with creativity to meet the fiscal challenges of the past seven years while continuing to provide a quality education. However, it has not been easy due to the Gap Elimination Adjustment (GEA) as we were deprived of over nine million dollars in State Aid Funding during that time. The District will continue to monitor our financial condition and identify additional opportunities for cost savings and efficiencies as well as continue to work to implement procedures that address the reliance on non-recurring revenues and will detail them in our Corrective Action Plan.

I would like to comment positively on the field staff that performed this audit. I found your staff to be professionally competent and profoundly patient as they diligently performed their work. They deserve to be lauded for a job well done.

Respectfully,

Shaun A. O'Connor  
Superintendent of Schools

**WEEDSPORT CENTRAL SCHOOL DISTRICT**

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to evaluate the District's financial management for the period July 1, 2012 through March 1, 2016. To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials and employees to gain an understanding of the District's budget process and financial operations.
- We reviewed financial information provided to the Board to determine the types of reports the Board receives.
- We reviewed the District's relevant policies and procedures, including those related to finances and budgeting, for adequacy and to gain an understanding of the District's financial operations.
- We reviewed adopted budgets from 2012-13 through 2015-16 to gain an understanding of the District's budget trends and practices.
- We reviewed the general fund's results of operations for fiscal years 2012-13 through 2014-15 to gain perspective on the District's financial condition.
- We reviewed the District's multiyear financial and capital plans for adequacy, as well as long-term replacement plans that the District has established and annual fiscal priorities.
- We discussed with District officials cost savings measures that they planned or already implemented. We also reviewed any available cost savings analyses prepared by the District for reasonableness to determine the potential financial impact of cost savings measures that are planned or already implemented.
- We reviewed current year budget and revenue status information and preliminary year-end projections prepared by the District to determine the anticipated year-end results for 2015-16.

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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