



# Willsboro Central School District Financial Condition

## Report of Examination

Period Covered:

July 1, 2012 – October 31, 2015

2015M-362



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 Willsboro 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 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 Willsboro Central School District (District) is located in the Towns of Chesterfield, Essex, Lewis, Westport and Willsboro in Essex County. The District is governed by the Board of Education (Board) that 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 District operates one school with approximately 275 students and 65 employees. The District's budgeted appropriations for the 2015-16 fiscal year are \$8.2 million, which are funded primarily with State aid and real property taxes.

## Objective

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

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

## Scope and Methodology

We examined the District's financial records for the period July 1, 2012 through October 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.

## 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 Condition

The Board and District management are responsible for accurately estimating revenues and appropriations in the District's annual budget. Accurate budget estimates help ensure that the real property tax levy is not greater than necessary. The estimation of fund balance is also an integral part of the budget process because a district may only retain a portion of fund balance, referred to as unrestricted fund balance,<sup>1</sup> within the limit established by law.<sup>2</sup> 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.

The District has accumulated unrestricted fund balance that exceeds the statutory limit by approximately \$977,000 (nearly 12 percentage points) and has levied more taxes than were needed to fund operations during the 2013-14 through 2015-16 fiscal years. The Board also overestimated appropriations in the 2012-13 through 2014-15 budgets by more than \$2.3 million (10 percent). In addition, the District's budgeting practices made it appear that the District needed to both raise taxes and appropriate fund balance and reserves to close projected budget gaps. However, it realized an operating surplus of \$51,390 during the 2012-13 fiscal year and smaller-than-planned operating deficits of \$24,169 in 2013-14 and \$39,578 in 2014-15.

As a result, the District used less than 3 percent of the total appropriated fund balance and reserves during those three years, and the District's unrestricted fund balance increased rather than decreased at the end of each year. The District continued the same budgetary practices when preparing the budget for the 2015-16 fiscal year, which will likely result in similar actual results of operations as the last three fiscal years.

### 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 the end of the fiscal year, 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.

<sup>1</sup> 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.

<sup>2</sup> New York State Real Property Tax Law (RPTL) limits the amount of unrestricted fund balance that districts may retain to no more than 4 percent of the ensuing year's budget.

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.

When fund balance, reserves or both 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 and/or reserves. Conversely, an operating surplus (when budgeted appropriations are more than actual expenditures, actual revenues are greater than estimated or both) increases the total year-end fund balance and can indicate that budgets are not realistic. The routine appropriation of fund balance or reserves that are not actually needed misleads District residents because the budget indicates that fund balance, reserves or both will be used, when in fact those funds are not being used to finance expenditures.

We compared the District's budgeted revenues and appropriations with actual results of operations for the 2012-13 through 2014-15 fiscal years and found that, while revenue estimates had been realistic, the Board overestimated appropriations by more than \$2.3 million (10 percent) during this time (Figure 1).

<b>Figure 1: Overestimated Appropriations</b>				
	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>Totals</b>
Appropriations	\$7,894,867	\$7,972,767	\$8,225,769	<b>\$24,093,403</b>
Expenditures	\$6,939,510	\$7,276,066	\$7,505,166	<b>\$21,720,742</b>
Difference	\$955,357	\$696,701	\$720,603	<b>\$2,372,661</b>
Percentage	12.10%	8.74%	8.76%	<b>9.85%</b>

Although the overestimated appropriations were spread throughout the budgets, the largest variances were for employee benefits, which were overestimated during the three-year period by a total of more than \$1 million (approximately 15 percent). The most significant of these appropriations was for health insurance, which was overestimated by \$739,056 (approximately 17 percent).

In addition, during the same three-year period, the District's budgets included appropriated fund balance and reserves totaling nearly \$2.4 million,<sup>3</sup> which should have resulted in planned operating deficits

<sup>3</sup> The Board appropriated fund balance as a financing source in its budgets of \$562,571 for 2012-13, \$568,609 for 2013-14 and \$753,918 for 2014-15, for a combined total of \$1,885,098. It also appropriated reserves as a financing source in its budgets of \$270,843 for 2012-13, \$180,881 for 2013-14 and \$55,881 for 2014-15, for a combined total of \$507,605.



in the same amount. However, because the District overestimated appropriations in its budgets, it realized an operating surplus of \$51,390 during the 2012-13 fiscal year despite appropriating a total of \$833,414 of fund balance and reserves to finance operations. Furthermore, the District realized operating deficits of \$24,169 in the 2013-14 fiscal year and \$39,578 in the 2014-15 fiscal year, despite appropriating fund balance and reserves to finance operations during those years of \$749,490 and \$809,799, respectively. As a result, the District used less than 3 percent of the total appropriated fund balance and reserves during this time.

It is inappropriate for the Board to consistently adopt budgets that result in the appropriation of fund balance that will not be used. Doing so caused the District to levy more real property taxes than needed and retain unrestricted fund balance in amounts greater than the statutory limit (Figure 2).

<b>Figure 2: Unrestricted Fund Balance at Year End</b>			
	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
Total Beginning Fund Balance	\$3,317,729	\$3,369,119	\$3,344,950
Add: Operating Surplus/(Deficit)	\$51,390	(\$24,169)	(\$39,578)
Total Ending Fund Balance	\$3,369,119	\$3,344,950	\$3,305,372
Less: Restricted Funds	\$1,556,529	\$1,333,712	\$1,279,722
Less: Nonspendable Fund Balance	\$4,965	\$4,965	\$4,965
Less: Encumbrances	\$40,207	\$34,362	\$14,118
Less: Appropriated Fund Balance for the Ensuing Year	\$568,609	\$753,918	\$700,008
<b>Total Unrestricted Funds at Year End</b>	<b>\$1,198,809</b>	<b>\$1,217,993</b>	<b>\$1,306,559</b>
Ensuing Year's Budgeted Appropriations	\$7,972,767	\$8,225,769	\$8,245,709
Unrestricted Fund Balance as a Percentage of the Ensuing Year's Budget	15.04%	14.81%	15.85%

The District has continued to retain excessive unrestricted fund balance even though the District's last eight annual independent audit reports<sup>4</sup> contained a finding related to the District's unrestricted fund balance being in excess of the statutory limit. The continued practice of retaining unrestricted fund balance in excess of the amount allowed by law has resulted in the District levying approximately \$977,000 more taxes<sup>5</sup> than were needed to fund operations during the 2013-14 through 2015-16 fiscal years.

<sup>4</sup> 2007-08 through 2014-15 fiscal years

<sup>5</sup> We calculated this amount by comparing the adopted tax levies to the tax levies that the District should have adopted for the 2013-14 through 2015-16 fiscal years to comply with RPTL statutory limits.



We reviewed the District's 2015-16 budget estimates and found that the budgeted revenues were reasonable. However, as in recent years, we project that District officials have overestimated appropriations for employee benefits by approximately \$235,000. As a result, this will likely result in the District not using the entire \$723,781<sup>6</sup> amount of fund balance and reserves that were appropriated as financing sources in the budget.

Although the need to address the excess accumulation of unrestricted fund balance was pointed out to District officials repeatedly by the independent auditors, District officials have not taken appropriate action to address this situation. The District's budgeting practices resulted in the retention of unrestricted fund balance in excess of the amount allowed by law and the levy of excessive real property taxes totaling approximately \$977,000 during the 2013-14 through 2015-16 fiscal years.

## **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 that current budgeting decisions may have on future fiscal years. Multiyear financial plans should be monitored and updated on a continuing basis to provide a reliable framework for preparing budgets and 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, which may have prevented the District's accumulation and retention of unrestricted fund balance in excess of the statutory limit. Nonetheless, 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 estimates for appropriations.

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<sup>6</sup> In the 2015-16 budget, the Board appropriated fund balance totaling \$700,008 and reserves totaling \$23,773.

2. Discontinue the practice of adopting budgets that result in the appropriation of fund balance or reserves that are not needed to finance District operations.
3. Ensure that the amount of the District's unrestricted fund balance is in compliance with RPTL statutory limits and reduce the amount of unrestricted fund balance 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.

Dean of Students  
Charmaine Flynn

CSE Chairperson  
Mark Robinson

Guidance Counselor  
Chris Ford

Athletic Director  
Michael Douglas

# WILLSBORO CENTRAL SCHOOL

*~Superintendent of Schools – Stephen Broadwell~*

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May 2, 2016

Jeffrey P. Leonard, Chief Examiner  
Office of the State Comptroller  
One Broad Street Plaza  
Glens Falls, New York 12801-4396

To Whom It May Concern:

The Willsboro Central School District and our Board of Education submit this letter as our official response to the audit report “Financial Condition – Period Covered July 1, 2012-October 31, 2015.”

We would like to thank the NYS Comptroller’s office and staff for their very thorough review and audit of our district’s financial picture. They reviewed our financial operation in great detail; we are very pleased that their only “finding” was that the district has prepared itself well for future adversity and long term sustainability. As we are aware, school districts have been facing financial uncertainty from Albany including a great deal of uncertainty and the financial picture from Albany including Gap Elimination Reduction of State Aid as well as the imposition of tax levy caps.

Sustaining fiscal balance requires planning on a multiple year basis while anticipating many unknowns. This is especially important in small rural districts where significant unanticipated expenditures can and do occur at any time. The Willsboro Central School Board and the school district continue to employ fiscally conservative values with stabilizing tax rates as a major priority.

As planned, the district expects to responsibly use some of our unrestricted fund balance during the 2016-17 school year as a result of a 0% tax levy change. The district is able to maintain our staffing and programs to weather some of the storms associated with little increase in state aid, increasing state mandates and a 0.17% tax cap. We also have plans to allocate some fund balance towards a new shared facility bus garage/town highway garage that we are currently working on with our local Town representatives.

The district continues to monitor on a year to year basis both our spending plans as well as our potential revenues and reserves as part of our financial plan on a year to year basis with the knowledge that we live in a volatile and unstable economic environment. The district has strived to stabilize taxes while maintaining outstanding educational programs for our students.

The district will continue to review our financial plan after the 2016-17 school budget and update our plan accordingly. As per your recommendation, the district will attempt to adopt future budgets that continue to reduce reserves in a fiscally responsible manner.

Sincerely,

Stephen Broadwell  
Superintendent of Schools

Phyllis Klein  
President – Board of Education

## **APPENDIX B**

### **AUDIT METHODOLOGY AND STANDARDS**

To achieve our audit objective and obtain valid audit evidence, we performed the following procedures:

- We interviewed the Superintendent and District Treasurer to gain an understanding of the District's financial management policies and procedures. This included inquiries regarding the District's budgeting practices, adoption of a fund balance policy and preparation of a multiyear financial plan.
- We compared the adopted general fund budgets for the 2012-13 through 2014-15 fiscal years with the actual results of operations to determine whether the budgets were realistic.
- We analyzed the District's general fund financial records for fiscal years 2012-13 through 2014-15 to determine whether the appropriation of fund balance, reserves or both resulted in planned operating deficits and a decline in fund balance.
- We calculated the general fund's unrestricted fund balances at the end of the 2012-13, 2013-14 and 2014-15 fiscal years and the percentages of the ensuing year's budgeted appropriations to determine whether the District was in compliance with RPTL statutory limits. We also performed calculations to determine the effect that any noncompliance had on the District's tax levies.
- 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 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.

## **APPENDIX C**

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