

# Wilson Central School District

## Financial Management

APRIL 2022



OFFICE OF THE NEW YORK STATE COMPTROLLER  
Thomas P. DiNapoli, State Comptroller

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# Report Highlights

## Wilson Central School District

### Audit Objective

Determine whether the Wilson Central School District (District) Board of Education (Board) and District officials properly managed fund balance and reserves.

### Key Findings

The Board and District officials did not properly manage fund balance and reserves. As of June 30, 2021:

- The recalculated surplus fund balance was \$3.3 million, which exceeds the 4 percent statutory limit by 8 percentage points.
- District officials improperly restricted more than \$1.6 million in the debt reserve fund.
- Workers' compensation reserves fund balance of \$836,000 can fund the average workers' compensation expenditures for 26 years.
- Unemployment reserve balance of about \$400,000 is nearly 200 times the average unemployment expenditure.

By maintaining surplus funds in excess of the statutory limit and maintaining excess reserves, real property taxes may have been higher than necessary. In addition, the Board did not adopt a comprehensive written multiyear financial plan.

### Key Recommendations

- Reduce surplus fund balance to comply with the statutory limit and use the excess funds in a manner more beneficial to taxpayers.
- Return funds inappropriately restricted in the debt reserve to general fund unrestricted fund balance.
- Adopt a comprehensive written multiyear financial plan.

District officials generally agreed with our findings and recommendations and plan to implement and/or have already implemented corrective action.

### Background

The District serves the Towns of Wilson, Cambria, Lockport, Newfane, and Porter in Niagara County.

The Board is responsible for managing and controlling the District's financial and educational affairs.

The Superintendent of Schools (Superintendent) is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The Business Administrator is responsible for accounting for the District's finances, budgeting and maintaining accounting records. The Board, Superintendent and Business Administrator are responsible for developing and monitoring the budget.

#### Quick Facts

Enrollment	1,174
Employees	256
2021-22 Appropriations	\$28,323,085

### Audit Period

July 1, 2018 – December 20, 2021

# Financial Management

## How Should Financial Condition Be Properly Managed?

To properly manage financial condition, a board should adopt reasonably estimated and structurally balanced budgets based on historical data or known trends in which recurring revenues finance recurring expenditures. In preparing the budget, a board must estimate the amounts a school district will spend and receive, the amount of fund balance that will be available at fiscal year-end to use toward the next year's budget and the expected real property tax levy. Accurate estimates help ensure that the tax levy is not greater than necessary and that surplus fund balance amounts are not over the legal limit.

A board is permitted to retain both a specified amount of fund balance for cash flow needs or unexpected expenditures and reserves for other identified or planned needs. Fund balance is the difference between revenues and expenditures accumulated over time. New York State Real Property Tax Law Section 1318 currently limits the amount of surplus fund balance that a school district can retain to no more than 4 percent of the next year's budget. Any surplus fund balance over this percentage must be used to reduce the upcoming fiscal year's real property tax levy or to fund needed reserves.

## The Board and District Officials Overestimated Appropriations and Surplus Fund Balance Exceeded the Statutory Limit

We compared estimated revenues and budgeted appropriations with actual operating results for 2018-19 through 2020-21 and found that, while revenue estimates were generally reasonable, appropriations were overestimated by \$7.9 million or 10.5 percent during the three-year period, as shown in Figure 1.

**Figure 1: Appropriations Analysis (In Millions)<sup>a</sup>**

	2018-19	2019-20	2020-21	Total
<b>Appropriations</b>	\$27.4	\$27.9	\$28.0	<b>\$83.4</b>
<b>Actual Expenditures</b>	\$25.7	\$25.3	\$24.5	<b>\$75.5</b>
<b>Overestimated Appropriations</b>	\$1.7	\$2.6	\$3.5	<b>\$7.9</b>
<b>Percentage Overestimated<sup>b</sup></b>	6.6%	10.3%	14.3%	<b>10.5%</b>

a) Excludes budgeted and actual transfer activity  
b) Overestimated appropriations divided by actual expenditures

The most significant overestimated appropriations were transportation costs, which had a total variance of approximately \$2.3 million or 36 percent, New York State Teachers' Retirement System (NYSTRS) costs which had a total variance of approximately \$550,000 or 18 percent and hospital and medical costs which had a total variance of approximately \$862,000 or 8 percent during our audit

Accurate estimates help ensure that the tax levy is not greater than necessary and that surplus fund balance amounts are not over the legal limit.

period. The consistent annual operating surpluses resulting from overestimated expenditures resulted in the surplus fund balance exceeding the statutory limit.

We reviewed the District’s surplus fund balance levels at year end for fiscal years 2018-19 to 2020-21 and found that surplus fund balance as of June 30, 2019 was 4 percent of the next year’s appropriations. However, as of June 30, 2020 and June 30, 2021 surplus fund balance increased to \$2.8 million in each fiscal year, or approximately 10 percent of the next year’s appropriations; exceeding the statutory limit by more than \$1.6 million or approximately 6 percentage points each year.

In addition, to balance the District’s budgets, officials appropriated \$500,000 in fund balance annually. However, the District realized an operating surplus, before interfund transfers, in each of the years we reviewed totaling more than \$5.8 million during the three-year period. As a result, the District did not use the appropriated fund balance to finance operations. Further, we reviewed the 2021-22 budget and determined that revenue and expenditure estimates are consistent with the last three fiscal years. As such, the District will most likely have an operating surplus that will result in higher surplus fund balance.

When adding in the \$500,000 of appropriated fund balance that was not used, the recalculated surplus fund balance for 2019-20 and 2020-21 fiscal year end was approximately \$3.3 million for both years, or 12 percent of the next year’s appropriations, exceeding the statutory limit of 4 percent by 8 percentage points (Figure 2).

**Figure 2: Recalculated Surplus Fund Balance**

	2018-19	2019-20	2020-21
<b>Surplus Fund Balance (Unappropriated)</b>	\$1,115,527	\$2,801,406	\$2,803,490
<b>Add: Unused Appropriated Fund Balance</b>	500,000	500,000	500,000
<b>Recalculated Surplus Fund Balance</b>	\$1,615,527	\$3,301,406	\$3,303,490
<b>Next Year's Budget</b>	\$27,917,404	\$28,036,893	\$28,323,085
<b>Recalculated Surplus Fund Balance as a Percentage of Next Year's Budget</b>	6%	12%	12%

Although fund balance exceeded the statutory limit and had increased overall during the last three fiscal years, officials continued to raise property taxes. The property tax levy increased by an average of 2.4 percent each year from 2018-19 to the current fiscal year of 2021-22, with an overall increase of 7.3 percent during this time.

Transportation costs were lower during the past two years than in 2017-18 which officials attributed to the pandemic, noting that students were not in school full

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time and buses were not running as frequently. The Superintendent and Business Administrator told us they had large operating surpluses the past two fiscal years due to the COVID-19 pandemic. District officials also told us that retirement appropriations were overestimated because they preferred to budget the same amount each year for retirement contribution for consistency. However, NYSTRS publishes estimated rates each February which can be used by officials to estimate a more accurate contribution cost when developing the budget for the following fiscal year.

Further, District officials told us the hospital and medical budget variances were a result of late retirements which can cause fluctuations in health insurance expenditures of \$30,000 per employee. Because District officials do not know what type of health insurance a new employee will need, they estimate the cost of family coverage. However, when preparing the budget, officials should consider all known factors including prior year expenditure trends.

By overestimating appropriations in the budget and annually appropriating fund balance that is not needed to finance operations, the District has, in effect, added to its surplus fund balance in excess of the statutory limit during our audit period. By maintaining surplus funds in excess of the statutory limit, real property tax may have been higher than necessary.

### **How Should Reserve Funds Be Properly Managed?**

School districts are legally allowed to establish reserves and accumulate funds for certain future purposes (e.g., retirement expenditures). While school districts are generally not limited as to the amount of funds that can be held in reserves, the balances should be reasonable. A board should balance the intent for accumulating funds for identified future needs with the obligation to make sure real property taxes are not higher than necessary.

New York State Local Finance Law, Section 165.00 and New York State General Municipal Law, Section 6-l require a debt reserve to be established if unexpended bond proceeds remain on a capital improvement, or when a capital improvement has outstanding debt remaining at the time of sale.<sup>1</sup> These funds must be restricted and used for related debt principal and interest payments.

### **Funds Were Improperly Restricted and Reserves Were Over Funded**

As of June 30, 2021, the District reported seven general fund reserves totaling approximately \$14.3 million and a debt reserve fund of approximately \$2.7 million. Other than as described below, we found the other general fund reserves were properly established and reasonably funded.

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<sup>1</sup> Refer to our publication *Reserve Funds* available at [www.osc.state.ny.us/files/local-government/publications/pdf/reservefunds.pdf](http://www.osc.state.ny.us/files/local-government/publications/pdf/reservefunds.pdf).

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A board should balance the intent for accumulating funds for identified future needs with the obligation to make sure real property taxes are not higher than necessary.

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Debt Reserve – This reserve included more than \$1.6 million of unexpended bond proceeds remaining from a bond that matured in June 2020, with the remaining funds tied to outstanding debt. As the unexpended bond proceeds were no longer tied to any outstanding debt, these funds should be returned to surplus fund balance in the general fund. If these funds were returned to the general fund, the recalculated surplus fund balance for June 30, 2021 would be nearly \$5 million or 17.6 percent of the next year’s appropriations. District officials told us they plan to move the funds in the debt reserve to the general fund and will discuss with the Board plans for transferring the funds and how they will be used.

Workers’ Compensation Reserve – Annual workers’ compensation expenditures during our audit period averaged \$31,700. This reserve had a balance of approximately \$836,000 on June 30, 2021 which would fund average expenditures for 26 years.

Unemployment Reserve – Annual unemployment expenditures during our audit period averaged approximately \$2,000. Fiscal year 2019-20 was the only year that had unemployment-related expenditures which totaled \$6,149, 2018-19 and 2020-21 had no unemployment-related expenditures. The balance of this reserve was approximately \$400,000 on June 30, 2021 which was nearly 200 times the average amount and 65 times the amount of 2019-20 expenditures.

Although District officials properly established the unemployment reserve and the workers’ compensation reserve, both reserves, with balances totaling more than \$1.2 million, were over funded. The reserves have been funded at these levels for several years and the balances have continued to increase over time due to accumulated interest earnings. District officials told us they have not transferred any funds into the reserves in several years as they felt the amounts were adequate and currently have no plans to increase or decrease the balances. However, officials should consider reducing the balance in these reserves and using excess funds towards a purpose more beneficial to District residents.

By maintaining excessive or unnecessary reserves, the Board and District officials may have missed opportunities to lower the property tax burden for District residents and withheld funds from being used to meet District needs.

### **A Comprehensive Written Multiyear Financial Plan Can Help District Officials Properly Manage Fund Balance**

Multiyear financial planning enables school district officials to identify revenue and expenditure trends, establish long-term priorities and goals, consider the impact of near-term budgeting decisions on future fiscal years and assess the merits of alternative approaches (such as using surplus funds or establishing and using reserves) to finance operations. Any comprehensive written multiyear (long-term) financial plan should be periodically reviewed and updated to provide a reliable

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...[T]he Board and District officials may have missed opportunities to lower the property tax burden for District residents and withheld funds from being used to meet District needs.

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framework for preparing budgets and ensure that information used to guide decisions is current and accurate.

## **The Board Did Not Adopt a Comprehensive Written Multiyear Financial Plan**

District officials told us the District does not have a comprehensive written multiyear financial plan. The Business Manager provided the Board with a “five-year outlook” each year which included future projected revenues and projected expenditures using a slide in an annual presentation to the Board, which she thought was adequate. However, these projections are not adopted by the Board nor did they include the elements of comprehensive written multiyear financial plan such as long-term priorities and goals or alternative approaches.

The lack of a long-term financial plan inhibits the Board’s and officials’ ability to effectively manage finances and address future operating and capital needs. As the District moves forward, a well-designed written financial plan can assist the Board in making timely and informed decisions about programs and operations and help them effectively manage fund balance in the best interest of taxpayers.

## **What Do We Recommend?**

The Board should:

1. Develop and adopt budgets that include reasonable estimates for appropriations and the amount of fund balance that will be used to fund operations.
2. Discontinue the practice of appropriating fund balance that is not needed or used to fund operations.
3. Develop a plan to reduce surplus fund balance to comply with the statutory limit and use the excess funds in a manner more beneficial to taxpayers including:
  - Reducing the real property tax levy,
  - Funding needed reserves,
  - Paying one-time expenditures, and
  - Paying off debt.
4. Return funds improperly restricted in the debt reserve to the general fund.
5. Review all reserve balances to determine whether the amounts reserved are necessary and reasonable.



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6. Develop, adopt and periodically update a comprehensive written multiyear financial plan to be used in conjunction with the annual budget process.

# Appendix A: Response From District Officials

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## Wilson Central School

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March 22, 2022

Melissa Myers, Chief Examiner  
New York State Comptroller  
Buffalo Regional Office  
295 Main Street, Suite 1032  
Buffalo, NY 14203-2510

Dear Ms. Myers:

Wilson Central School District is in receipt of the New York State Comptroller's draft report entitled, "Wilson Central School District Financial Management". The audit period is July 1, 2018, to December 20, 2021.

#### Key Recommendations:

- Reduce surplus fund balance to comply with the statutory limit and use the excess funds in a manner more beneficial to taxpayers.
- Return funds inappropriately restricted in the debt reserve to general fund unrestricted fund balance.
- Adopt a comprehensive written multiyear financial plan.

The District understands that its current unappropriated fund balance is over the statutory legal limit and would like the Comptroller and the public to know that this has only been over for the last two years, during the pandemic. Prior to the 2019-20 school year, the District maintained an unappropriated fund balance of four percent. In August of 2020, when the 2019-20 books were being completed, the State told us to be prepared for a 20% cut in State Aid. If this was a cut just in Foundation Aid, that would amount to about \$2 million dollars for Wilson. Therefore, the Board of Education Finance Committee made the decision to keep the unappropriated fund balance at a level that could cover such a cut to our aid. This cut did not actually occur but we were ready in case it did. At the completion of the 2020-21 school year, still dealing with the pandemic, the Finance Committee met to discuss Fund Balance and end of the year surpluses. The Committee made the decision to leave the unappropriated fund balance at a level above four percent due to the pandemic and the uncertainty that comes with it. The District does feel that the 4% of next year's budget being set as the maximum amount of unappropriated fund balance should be increased. The State's own Executive Budget Proposal for 2022-23 is calling to increase its reserves to 15% of spending from the State Operating Funds. Therefore, school districts should be allowed to allocate a higher percentage than 4% to its unappropriated fund balance. The Board of Education approved the Reserve Plan for 2021-22, and this document does state that the

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Finance Committee will review the balance of the unappropriated fund balance at the end of the 2021-22 school year to see if they are comfortable making any changes to this balance. The Board of Education is set to establish a new reserve fund this month, a Repair Reserve. Once established, the District will include a proposition on the official ballot for the Wilson Central School District School Election and Budget Vote being held on May 17, 2022, asking the voters to allow the District to fund the Repair Reserve for \$250,000 with surplus funds. The Board of Education approved a resolution at the March 8, 2022 Board Meeting to place a proposition on the May Election and Budget Vote asking the voters to allow the District to establish a Technology Equipment Reserve. If the voters pass this proposition, the Board of Education can choose to fund the reserve with any surplus funds remaining at the end of 2021-22.

The District's Debt Reserve Fund is comprised of funds placed in the account leftover from various Capital Project funding. The District's external auditors have done an analysis of the balance and tied the funds back to various projects. The analysis shows \$1.6 million dollars of the fund is a result of a bond that matured in June 2020. Therefore, these funds should be moved to Surplus Funds in the General Fund. The District has shown movement over the last several years to lower the balance in the Debt Service Reserve. The Board appropriates funds from this reserve to balance the budget when necessary. The District also has some upcoming challenges for future budgets and the use of some of the funds in this reserve will be needed to balance the budget. The use of the funds from this account is outlined in the Multiyear Plan presented to the Board on February 22, 2022. The District will present the details of its anticipated use of the funds in the Corrective Action Plan.

The Business Administrator presented a Multiyear Plan to the Board of Education on February 22, 2022. The plan can be found on the District website under the District Budget tab. This plan will be updated and presented to the Board every year during the budget review process.

The Wilson Board of Education, the Superintendent of Schools, and the Business Administrator would like to thank the Comptroller's office for completing the audit in a professional and efficient manner.

Sincerely,

Timothy P. Carter  
Superintendent of Schools

George Waters  
Board of Education President

## Appendix B: Audit Methodology and Standards

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We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials and Board members and reviewed Board meeting minutes, resolutions, and policies to gain an understanding of the District's financial management policies and procedures and budgeting practices.
- We reviewed financials records to determine whether the District had an operating surplus or deficits during our audit period.
- We reviewed the adopted general fund budgets from 2018-19 through 2020-21 to assess whether they are reasonable and structurally balanced by comparing adopted budgets with actual results of operations and analyzing significant budget-to-actual variances. We reviewed the 2021-22 budget to determine whether the revenue and expenditure estimates are consistent with prior years' estimates.
- We analyzed general fund financial records from 2018-19 through 2020-21 and evaluated any factors contributing to fluctuations in fund balance including real property tax levy fluctuations and other revenue and expenditure trends. We also reviewed year-end surplus fund balance to determine whether the District was in compliance with New York State Real Property Tax Law.
- We recalculated surplus fund balance by adding the unused appropriated fund balance and the improperly restricted debt reserve funds in 2020-21 and compared these amounts to the statutory limit.
- We reviewed reserve fund balances as of June 30, 2021 to assess whether they were properly established, compliant with applicable statutes, used and reasonably funded.
- We discussed multiyear financial plans with District officials.

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.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning



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the value and/or size of the relevant population and the sample selected for examination.

The Board has the responsibility to initiate corrective action. 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, 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. 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 CAP should be posted on the District's website for public review.

## Appendix C: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf](http://www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf)

### **Cost-Saving Ideas** – Resources, advice and assistance on cost-saving ideas

[www.osc.state.ny.us/local-government/publications](http://www.osc.state.ny.us/local-government/publications)

### **Fiscal Stress Monitoring** – Resources for local government officials experiencing fiscal problems

[www.osc.state.ny.us/local-government/fiscal-monitoring](http://www.osc.state.ny.us/local-government/fiscal-monitoring)

### **Local Government Management Guides** – Series of publications that include technical information and suggested practices for local government management

[www.osc.state.ny.us/local-government/publications](http://www.osc.state.ny.us/local-government/publications)

### **Planning and Budgeting Guides** – Resources for developing multiyear financial, capital, strategic and other plans

[www.osc.state.ny.us/local-government/resources/planning-resources](http://www.osc.state.ny.us/local-government/resources/planning-resources)

### **Protecting Sensitive Data and Other Local Government Assets** – A non-technical cybersecurity guide for local government leaders

[www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf](http://www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf)

### **Required Reporting** – Information and resources for reports and forms that are filed with the Office of the State Comptroller

[www.osc.state.ny.us/local-government/required-reporting](http://www.osc.state.ny.us/local-government/required-reporting)

### **Research Reports/Publications** – Reports on major policy issues facing local governments and State policy-makers

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## Contact

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