

Webster Central School District

Financial Condition

SEPTEMBER 2018



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

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Report Highlights

Webster Central School District

Audit Objective

Determine whether the Board effectively managed the District's finances by adopting realistic budgets and ensuring unrestricted fund balance remained within statutory limits.

Key Findings

- District officials appropriated nearly \$28 million of fund balance (approximately \$5.5 million each year) in the 2013-14 through 2017-18 budgets as a financing source. However, \$22 million (80 percent) was not used to fund operations.
- Recalculated unrestricted fund balance exceeded the 4 percent statutory limit for 2012-13 and 2014-15 through 2016-17 ranging from 7.3 and 7.7 percent.

Key Recommendations

- Ensure that the District's fund balance is in compliance with statutory limits and use surplus funds as a financing source to fund one-time expenditures and needed reserves or reduce real property taxes.
- Develop and adopt budgets based on historical trends or other known factors.
- Discontinue the practice of appropriating fund balance that is not needed or used to fund operations.

District officials disagreed with certain aspects of our findings and recommendations, but indicated they planned to initiate corrective action. Appendix B includes our comments on issues raised in the District's response letter.

Background

The Webster Central School District (District) serves the Towns of Penfield and Webster in Monroe County and Ontario and Walworth in Wayne County.

A seven-member Board of Education (Board) is responsible for the general management and control of District financial and educational affairs. The Superintendent of Schools is the chief executive officer and is responsible, along with other administrative staff, for day-to-day management under the Board's direction. The Assistant Superintendent for Business oversees business operations.

Quick Facts

Employees	1,432
Enrollment	8,391
2017-18 General Fund Appropriations	\$167.9 million

Audit Period

July 1, 2016 — April 19, 2018

We extended our audit scope period back to July 1, 2012 to review fund balance trends.

Financial Condition

What Is Effective Financial Condition Management?

To effectively manage a district's financial condition, the board should adopt realistic and structurally balanced budgets based on historical data or known trends, in which recurring revenues finance recurring expenditures and reasonable levels of fund balance are maintained. To provide for cash flow and unanticipated events, a district may retain a portion of fund balance, referred to as unrestricted fund balance.

District officials should ensure that unrestricted fund balance does not exceed the amount allowed by New York State Real Property Tax Law,¹ which currently limits unrestricted fund balance to no more than 4 percent of the following year's appropriations. Any unrestricted fund balance that exceeds the statutory limit should be used to pay for onetime purchases, fund needed reserves or reduce the real property tax levy. When fund balance is appropriated to finance operations, the district is budgeting for a planned operating deficit equal to the amount of fund balance appropriated.

Unrestricted Fund Balance Exceeded the Statutory Limit

District officials need to improve their budgeting practices to ensure fund balance is reasonable. The District budgeted planned operating deficits by appropriating approximately \$5.5 million in fund balance annually as a financing source for 2013-14 through 2017-18. This appropriation of fund balance made it appear that unrestricted fund balance was within the statutory limit. However, because officials underestimated revenues and overestimated expenditures in four of these years, operating results did not generate the planned deficits.² As a result, \$22.1 million (79.5 percent) of the \$27.8 million total appropriated fund balance went unused. When the unused appropriated fund balance was added back, the District's recalculated unrestricted fund balance exceeded the statutory limit in four of five years by 3.3 to 3.7 percentage points.

¹ New York State Real Property Tax Law Section 1318

² We included our projection of 2017-18 operating results through the year-end resulting in \$5.5 million of appropriated fund balance being unneeded as a financing source.

Figure 1: Recalculated Fund Balance

	2012-13	2013-14	2014-15	2015-16	2016-17
Total Unrestricted Fund Balance at Year-End	\$5,917,232	\$6,091,457	\$5,997,299	\$6,812,578	\$6,681,407
Add: Appropriated Fund Balance Not Used to Fund					
Ensuing Year's Budget	\$5,584,397	\$0	\$5,500,000	\$5,500,000	\$5,500,000 ^a
Total Recalculated Unrestricted Funds	\$11,501,629	\$6,091,457	\$11,497,299	\$12,312,578	\$12,181,407
Ensuing Year's Budget	\$148,997,175	\$152,423,567	\$158,309,719	\$163,860,220	\$167,959,062
Recalculated Unrestricted Funds as a Percentage of Ensuing Year's Budget	7.7%	4.0%	7.3%	7.5%	7.3%

a We assumed that the amount appropriated to fund the 2017-18 budget will not be used.

Appropriating fund balance each year that is not needed to finance operations is, in effect, a reservation of fund balance that is not provided by statute and a circumvention of the statutory limit. Adopting budgets that result in the appropriation of fund balance that will not be used causes District officials to retain more fund balance and potentially levy more real property taxes than needed.

What Do We Recommend?

The Board and District officials should:

1. Develop and adopt annual budgets based on historical trends or other known factors.
2. Discontinue the practice of adopting budgets that appropriate fund balance that is not needed or used to fund operations.
3. Ensure that the amount of fund balance is in compliance with statutory limits and use surplus funds in a manner that benefits District taxpayers. Such uses could include, but are not limited to:
 - Reducing real property taxes
 - Funding needed reserves
 - Financing one-time expenditures.

Appendix A: Response From District Officials



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July 31, 2018

Mr. Edward V. Grant Jr., Chief Examiner
Office of the State Comptroller
16 West Main Street
The Powers Building, Suite 522
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Dear Mr. Grant:

Webster Central School District (WCSD) has received and reviewed the draft Financial Condition Report of Examination (2018M-109) for audit period July 1, 2012 to April 19, 2018. On behalf of WCSD's Board of Education and administration, we sincerely appreciate the hard work and professionalism exhibited by the audit team while they were here. This letter includes both the district's response to the report as well as the corrective action plan. This action plan was reviewed and approved by the board of education on August 14, 2018.

WCSD's Board of Education seeks to balance its ongoing commitment to be fiscally responsible stewards of our stakeholders' tax dollars while continuing to provide a strong educational program that attracts families to our outstanding school district. At the same time, the district must abide by evolving financial constraints from state and federal laws, regulations, mandates, and requirements. The board of education spends many months developing sound budgets and fiscal practices that balance the priorities of the school district community.

From July 1, 2012, through June 30, 2017, WCSD had \$4,026,203 less (a 17% reduction) in fund balance than before this audit period commenced. During this same time period, WCSD had state aid reductions in the amount of \$25,968,240. We are proud to point out that during this same timeframe, the true tax value for WCSD had an average increase of 0.91% per year.

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The draft Financial Condition Report of Examination states “that appropriating fund balance each year that is not needed to finance operations is, in effect, a reservation of fund balance that is not provided by statute and a circumvention of the statutory limit. Adopting budgets that result in the appropriation of fund balance that will not be used causes district officials to retain more fund balance and potentially levy more real property taxes than needed.” WCSD contends that this statement is a subjective opinion of the Comptroller’s auditors related to fund balance management. WCSD respectfully acknowledges the Comptroller’s auditors’ opinion on the fund balance calculation, but believes the calculation outlined below is the appropriate methodology that should be used by districts to calculate the 4% cap.

See
Note 1
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See
Note 2
Page 7

In the updated April 2011 OSC Memo on Generally Accepted Accounting Principles (GAAP), the Office of the Comptroller clarified the requirements for fund balance commonly referred to as GASB 54. On page four of the document under Statutory Fund Balance Limitations, it is stated:

“School Districts – Real Property Tax Law §1318 limits the amount of unexpended surplus funds a school district can retain to no more than 4 percent of the next year’s budgetary appropriations. Funds properly retained under other sections of law (i.e., reserve funds established pursuant to Education Law or GML) are excluded from the 4 percent limitation. In the context of previous fund balance reporting, an unexpended surplus was interpreted to be synonymous with unappropriated unreserved fund balance. Under Statement 54 fund balance classifications, the 4 percent limitation would be interpreted to be applied to unrestricted fund balance (i.e., the total of the committed, assigned, and unassigned classifications), minus appropriated fund balance, amounts reserved for insurance recovery, amounts reserved for tax reduction, and encumbrances included in committed and assigned fund balance.”

Furthermore, guidance from the New York State Education Department (NYSED) is located here: http://www.p12.nysed.gov/mgt/serv/documents/2017RefMan_2017_Appendix4_RSI03082017.pdf

On page seven of appendix four linked above, NYSED issued a calculation guidance document regarding how districts may calculate the 4% maximum threshold. Both WCSD and its independent auditors follow the same statutory calculation requirements that have been recommended by NYSED. WCSD’s calculation is found on page 54 of the district’s financial statements located on our website, websterschools.org (under the Business Department tab) and is in compliance with the statutory requirements as defined by NYSED.

Based on the Comptroller’s recommendations, WCSD will execute the following action plan:

1. The district will continue to develop and adopt budgets based on a zero-based budgeting philosophy. The board of education’s long range budget planning process begins every January with analysis of the district’s past five-year financial history in order to predict a five-year future revenue and expense budget. WCSD’s Board and administration will continue to review methods to improve this process and more accurately project future financial trends based on historical analysis.
2. In the past, WCSD appropriated fund balance every year to directly benefit district taxpayers. Any year-end surplus was maintained and allocated from past years in order to reduce the levy that was presented to voters in May compared to what was set in the August warrant. Under the constraints of the tax cap, it is no longer fiscally prudent to perform this task. The district is comfortable that its current level of appropriated fund balance will be used as a revenue to

See
Note 3
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subsidize the past years' tax levies. There could be no greater annual benefit to taxpayers than making that decision as a board every summer to reduce the levy and appropriate historically surplus funds.

3. The district will continue to utilize the guidance set forth by both NYSED and the Comptroller to calculate the statutory limits for surplus fund balance.

WCSD's Board of Education will certainly take into account the Comptroller's recommendations as set forth in the draft Financial Condition Report of Examination and continually improve any existing budget or financial processes.

Sincerely,



Tammy Gurowski
President, Board of Education



Carmen Gumina
Superintendent of Schools

Appendix B: OSC Comments on the District's Response

Note 1

We based our report on Real Property Tax Law and good business practices. Appropriating fund balance should result in a planned operating deficit and lower real property taxes for taxpayers. Because the District often realized operating surpluses instead, taxpayers did not always receive the benefit of lower taxes.

Note 2

The recalculated unrestricted fund balance at year-end in our report demonstrates the effect of budgeted operating deficits that were not realized each year.

Note 3

Contrary to District's intent as stated in the response letter, appropriating fund balance that is not needed to finance operations does not provide relief to taxpayers. For taxpayers to benefit, the District must realize its planned operating deficit and use the appropriated fund balance to finance operations not covered by that fiscal year's revenues.

Appendix C: Audit Methodology and Standards

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 the District officials and reviewed the Board meeting minutes to gain an understanding of financial management policies and procedures and the budgeting practices.
- We reviewed the general fund's results of operations for 2012-13 through 2016-17 to gain perspective on financial condition.
- We reviewed the total actual revenues and expenditures from 2012-13 through 2016-17 to calculate the operating deficits or surpluses and compared the operating results to appropriated fund balance to determine the amount of fund balance used and if any operating deficits were planned.
- We compared the January 31, 2018 budget appropriations status report to the 2017-18 adopted budget to determine the total appropriations used to date. Based on this calculation, we projected the 2017-18 year end operating results and effect on potential financial trends.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

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 2116-1(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 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. We encourage the Board to make the CAP available for public review in the Clerk's office.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

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

www.osc.state.ny.us/localgov/costsavings/index.htm

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

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

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

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

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

www.osc.state.ny.us/localgov/planbudget/index.htm

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

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.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/localgov/finreporting/index.htm

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

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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