



Waverly Central School District Financial Condition

Report of Examination

Period Covered:

July 1, 2011 — March 26, 2013

2013M-148



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 2013

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments 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 local government assets.

Following is a report of our audit of the Waverly 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 General Municipal Law.

This audit's results and recommendations are resources for local government 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 Waverly Central School District (District) is located in the Town of Barton in Tioga County, and the Towns of Ashland, Baldwin and Chemung in Chemung County. The District is governed by the Board of Education (Board) which comprises nine 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 administrative staff, for the District's day-to-day management under the Board's direction.

There are four schools in operation within the District, with approximately 1,700 students and 260 employees. The District also operates an administration building and a transportation facility. The District's budgeted expenditures for the 2012-13 fiscal year were \$28 million, which were funded primarily with State aid and real property taxes.

Objective

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

- Did the Board and District management develop reasonable budget estimates?

Scope and Methodology

We interviewed appropriate District officials, examined financial records and reviewed procedures of the District for the period of July 1, 2011, to March 26, 2013. To analyze the District's historical financial condition, we extended our audit scope period back to the 2007-08 fiscal year.

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 C 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. Appendix B includes our comment on an issue raised in the District's response letter.

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 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

A school district's financial condition is a factor in determining its ability to provide educational services to students. The responsibility for accurate and effective financial planning rests with the Board, the Superintendent, and the Business Official. It is imperative for Board members to maintain the District's financial condition by developing structurally balanced budgets that are based on accurate financial information and include reasonable estimates of expenditures, revenues and available fund balance. Budgets should accurately depict the district's financial activity while using available resources to responsibly lower the tax burden of district residents. A district may retain a portion of fund balance, referred to as unexpended surplus,¹ within the limits established by Real Property Tax Law. Districts may also establish reserves to restrict a portion of fund balance for a specific purpose, also in compliance with statutory directives.

The Board and District management are not developing realistic expenditure budget estimates. For the fiscal years ended 2008 to 2011, the District spent an average of \$1.8 million less than budgeted appropriations each year. For the fiscal year ended 2012, the District's actual revenues and expenditures were far closer to budget estimates, receiving \$60,000 less than budgeted revenues and spending only \$702,000 less than budgeted appropriations.

The District's annual budgets also included the use of fund balance to finance operations in order to keep the real property tax levies at amounts the Board considered to be reasonable, while filling the financial gap the Board perceived to exist. For a five-year period, the Board adopted budgets that included aggregate appropriated unexpended surplus of more than \$4.7 million, an average of more than \$940,000 annually, which should have decreased the amount available to appropriate. However, very little of the planned amount was used because, for the same period, actual operations generated surpluses totaling more than \$5.3 million.

¹ The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term 'unexpended surplus funds' to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, minus appropriated fund balance, amounts reserved for insurance recovery and tax reduction, and encumbrances included in committed and assigned fund balance (post-Statement 54).

Table 1: General Fund Operating Results, Fund Balance and Tax Levy					
	2007-08	2008-09	2009-10	2010-11	2011-12
Beginning Fund Balance	\$3,689,080	\$5,938,231	\$6,812,666	\$8,541,308	\$10,441,520
Revenues	\$21,812,607	\$22,097,532	\$22,150,578	\$22,772,355	\$23,923,709
Expenditures	\$19,660,754	\$21,266,243	\$20,413,977	\$20,892,942	\$25,182,967
Operating Surplus/Deficit	\$2,151,853	\$831,289	\$1,736,601	\$1,879,413	(\$1,259,258)
Prior Period Adjustments (net)	\$97,298	\$43,146	(\$7,959)	\$20,799	\$14,684
Total Year End Fund Balance	\$5,938,231	\$6,812,666	\$8,541,308	\$10,441,520	\$9,196,946
Less: Restricted and Assigned Fund Balance	\$4,588,769	\$3,778,807	\$5,311,925	\$6,235,972	\$5,936,257
Less: Appropriated Fund Balance	\$572,525	\$500,000	\$601,900	\$2,844,976	\$2,844,976
Unexpended Surplus Funds	\$776,937	\$2,533,859	\$2,627,483	\$1,360,572	\$415,713
Unexpended Surplus as % of Ensuing Year Appropriations ^a	3%	11%	11%	5%	2%
Tax Levy	\$6,139,913	\$6,139,913	\$6,139,913	\$6,201,312	\$6,201,312
^a Budgeted appropriations were \$22,295,732 for the 2008-09 fiscal year, \$22,942,843 for the 2009-10 fiscal year, \$23,027,989 for the 2010-11 fiscal year, \$25,885,922 for 2011-12 fiscal year, and \$27,559,066 for the 2012-13 fiscal year					

The Board believes it is budgeting conservatively to ensure fiscal stability. However, the Business Official, in anticipation of debt service payments in 2012, and the possibility of unanticipated special education and facilities maintenance expenditures overestimated appropriations, which increased the unexpended surplus funds. Although we recognize this was an attempt at long-term financial planning to keep the tax levy consistent, with a decrease in rates each year since 2008, it does not provide a transparent or true picture of actual District expenditures. Instead, the Board should have used the budget process to fund appropriate reserves to save for long-term expenditures. As a result, unexpended surplus funds exceeded the statutory limit of 4 percent for fiscal years 2008-09 (at 11 percent of the ensuing year's appropriations), 2009-10 (at 11 percent of the ensuing year's appropriations) and 2010-11 (at 5 percent of the ensuing year's appropriations). For the fiscal year ended 2012, the Board appropriated more than \$2.8 million of unexpended surplus funds. As a result, the unexpended surplus balance was 2 percent of the ensuing year's appropriations, which is well below the allowable 4 percent threshold.

Due to increasing health care costs, which have totaled more than \$19 million from 2007-08 to 2011-12 and continuing debt service payments, the Business Official continues to purposely overestimate appropriations instead of using reserves to save for these increasing and future expenditures. Fiscal year ended 2012-13 figures and the adopted budget for 2013-14 indicate that the District is continuing these budgeting practices. Although fiscal year ended 2012-13 figures show the District having an operating deficit of approximately \$1.2 million, District officials appropriated more than \$2.8 million as the planned deficit. The adopted budget for 2013-14 includes appropriations of \$28 million, estimated revenues of \$25 million (including a tax levy of \$6.2 million), transfers from reserve funds of \$650,000, and \$2.8 million in appropriated unexpended surplus funds. Estimated revenues for fiscal year 2013-14 have increased 5 percent (or \$1.3 million) from 2012-13 actual revenues and budgeted appropriations have increased 12 percent (or \$2.9 million) from 2012-13 actual expenditures.

The practice of appropriating unexpended surplus funds that are not actually used to finance operations, combined with ongoing budget practices that generate repeated surpluses results in the Board and District management compromising the transparency of District finances to the taxpayers.

Recommendations

1. The Board and District officials should develop expenditure estimates that are realistic and based upon all information available at the time the budget is developed.
2. District officials should provide appropriate transparency through the budget process with public disclosure. If District officials intentionally continue to collect taxes in excess of what is necessary for financing current operations in an effort to accumulate funds for future use, those funds should be set aside in appropriate reserves.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

August 29, 2013

Office of the State Comptroller

State Office Building, Room 1702
44 Hawley Street
Binghamton, NY 13901

Attention:

Dear

This letter responds to the preliminary draft findings of our district's audit report, done by your office.

The Board of Education knows that it has been budgeting conservatively to ensure fiscal stability. The Board also knows that they work diligently with the Business Administrator and the Superintendent through their entire budget process in a most transparent and true fashion, year in and year out.

After two difficult years in 2005-06 and 2006-07, when taxes were increased in large amounts to overcome unexpected circumstances, the District was able to steady the ship with good budgetary practices that put them into a better position each year to balance the needs of students and staff as well as the needs of the taxpayers.

To have it suggested as not being a transparent and true process is difficult, as every step taken was in public session and every question asked of the district, in session or out, was answered and information was provided. The two years of heightened "Unexpended Surplus" at 11% were the years of "ARRA" money, which came with so many long-term strings attached, that it was not used as the suggested uses were unsustainable.

When the former Superintendent retired in June of 2011, he, the Business Administrator and the Board of Education were pleased with the fiscal condition of the district and so was the community.

Thank you,

Michael W. McMahon, Interim Superintendent

See
Note 1
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APPENDIX B

OSC COMMENT ON DISTRICT OFFICIALS' RESPONSE

Note 1

We did not criticize the District for its budget procedures but rather the reasonableness of the budget estimates. District officials ensure that all budget steps are performed appropriately and requests for information are answered. However, the budget estimates for appropriations were purposely overestimated each year.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed appropriate District officials, tested selected records, and examined pertinent documents for the period July 1, 2011, through March 26, 2013. Our examination included the following:

- We interviewed District officials to gain an understanding of their budget process, including their determination of fund balance available for appropriation and their procedures for monitoring and controlling the budget.
- We calculated the results of operations over the last five years and for the current fiscal year by comparing actual revenues to actual expenditures and taking into account appropriated fund balance where applicable.
- We reviewed detailed budgets to actual revenues and expenditures for the fiscal years 2007-08 through 2011-12. We examined budget line items where actual revenues and expenditures were at least 5 percent of total revenue or expenditures or where the variance was \$50,000 over- or under-budget.
- We reviewed fund balances for fiscal years 2007-08 through 2011-12 and documented the use of fund balance for budgetary purposes. We calculated the percentage of unassigned, unappropriated fund balance as a percentage of expenditures and as a percentage of real property taxes. We calculated the percentages with respect to whether the District is over or under the statutory 4 percent limitation.
- We reviewed the fiscal year 2013-14 budget documenting appropriations, estimated revenues, transfers from reserve funds and appropriated unexpended surplus. We compared the 2012-13 figures to the budgeted amounts to determine if the fiscal year 2013-14 budget is below or above these figures.

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.

APPENDIX D

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Nathalie N. Carey, Assistant Comptroller

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