



Town of Webb Union Free School District Fund Balance

Report of Examination

Period Covered:

July 1, 2012 – November 30, 2015

2016M-140



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 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 Town of Webb Union Free School District, entitled Fund Balance. 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 Town of Webb Union Free School District (District) is located in the Town of Webb in Herkimer County and the Town of Forestport in Oneida 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 District operates one school with approximately 270 students and 80 employees. The District's budgeted appropriations for the 2015-16 fiscal year are \$8.8 million, which are funded primarily with real property taxes, State aid and grants.

Objective

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

- Did District officials ensure the unrestricted fund balance was within the statutory limit?

Scope and Methodology

We examined the District's financial condition for the period July 1, 2012 through November 30, 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 is 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.

Fund Balance

Fund balance represents the cumulative resources from prior fiscal years. A district may retain a portion of fund balance, but must do so within limits established by New York State Real Property Tax Law. Currently the amount of fund balance a school district can retain may not be more than 4 percent of the ensuing fiscal year's budget. Additionally, districts are legally allowed to establish reserve funds and accumulate funds for certain future purposes (e.g., capital project, retirement expenditures).

District officials are responsible for accurate and effective financial planning including adopting a fund balance policy that provides guidelines for maintaining and using fund balance. Accordingly, it is essential that District officials develop and adopt realistic budgets that are based on historical trends, adjusted for known differences, to help ensure that the amount of fund balance retained remains within the statutory limit.

District officials did not ensure that the District's unrestricted fund balance was within the statutory limit during the past three fiscal years (2012-13 through 2014-15). The District's unrestricted fund balance exceeded the statutory limit for these years ranging from 6.5 to 10.7 percent. As of June 30, 2015, the District's unrestricted fund balance totaled more than \$570,000, which exceeded the statutory limitations by \$223,561. This represents fund balance that could potentially be used as a financing source to pay for infrastructure improvements, fund one-time expenditures, fund needed reserves or reduce the tax levy.

Because the District overestimated expenditures by approximately \$2.3 million from the 2012-13 through 2014-15, it used only a small amount (\$92,072 or 3 percent) of the nearly \$3.3 million of fund balance that was appropriated for the same period. When adding back unused appropriated fund balance, the District's recalculated unrestricted funds further exceeded the statutory limit.

Unrestricted Fund Balance – For the 2012-13 through 2014-15 fiscal years, unrestricted fund balance exceeded the statutory limit, with fund balance levels ranging between 10.7 and 6.5 percent of the next year's budget (Figure 1).

Figure 1: Unrestricted Fund Balance at Year-End

	2012-13	2013-14	2014-15
Total Beginning Fund Balance	\$3,174,858	\$3,181,705	\$3,195,427
Add: Operating Surplus/(Deficit)	\$6,845	\$13,722	(\$112,639)
Total Ending Fund Balance	\$3,181,703	\$3,195,427	\$3,082,788
Less: Restricted Funds	\$990,179	\$1,192,038	\$908,592
Less: Encumbrances	\$305,796	\$404,431	\$257,445
Less: Appropriated Fund Balance for the Ensuing Year	\$1,038,415	\$916,452	\$1,341,877
Total Unrestricted Funds at Year-End	\$847,313	\$682,506	\$574,874
Ensuing Year's Budgeted Appropriations	\$7,918,132	\$8,109,420	\$8,783,340
Unrestricted Funds as Percentage of Ensuing Year's Budget	10.7%	8.4%	6.5%

Appropriated Fund Balance – The Board appropriated fund balance to finance operations each year from 2012-13 through 2014-15. Although approximately \$3.3 million of fund balance was included in the budgets as a financing source, the District only used a small amount (\$92,072 or 3 percent) because expenditures were significantly overestimated in those years.

The Board did not use the fund balance that was appropriated because it did not adopt realistic budgets. The Board overestimated expenditures while also appropriating fund balance not used to finance operations. As a result, the District experienced operating surpluses in 2012-13 and 2013-14 and an operating deficit in 2014-15 that was significantly less than planned.

When fund balance is appropriated and not used, it reduces the amount of unrestricted fund balance that is subject to the statutory limit. When the unused fund balance was added back, the District's recalculated unrestricted fund balance further exceeded the statutory limit ranging from 18.3 to 23.8 percent of the ensuing year's appropriations. At the end of 2014-15 the District officials appropriated approximately \$1.3 million for the 2015-16 budget. However, we project that it will not be needed. As such, we expect the District's unrestricted fund balance will continue to exceed the statutory limit.

Figure 2: Unused Fund Balance

	2012-13	2013-14	2014-15
Total Unrestricted Funds at Year-End	\$847,313	\$682,506	\$574,874
Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget	\$1,038,415	\$803,813	\$1,341,877
Total Recalculated Unrestricted Funds	\$1,885,728	\$1,486,319	\$1,916,751
Recalculated Unrestricted Funds as Percentage of Ensuing Year's Budget	23.8%	18.3%	21.8%

The Board's overestimation of expenditures in the annual budgets contributed to the increases in unrestricted fund balance. Expenditures were overestimated by a combined total of approximately \$2.3 million (9.7 percent) in the 2012-13 through the 2014-15 fiscal years. These expenditures were generally spread throughout general fund budget lines over these years. However, we found that certain accounts were overestimated each year from 2012-13 through 2014-15 and the following expenditures were overestimated annually:

- Employee salaries were overestimated by a combined total of \$1.2 million or 10 percent of total combined budgeted appropriations.
- Employee benefits were overestimated by a combined total of \$453,440 or 7 percent of total combined budgeted appropriations.
- Contractual expenditures, which included such costs as legal fees, building maintenance, transportation repairs, office supplies, teaching supplies and athletic supplies, were overestimated by a combined total of \$791,101 or 16 percent of the budgeted appropriations.

By over-estimating expenditures, the Board adopted unrealistic budgets that included appropriated fund balance totaling approximately \$3.3 million that was not actually used to finance operations. As a result, the District's fund balance has become excessive and District officials may have levied more taxes than necessary to sustain District operations.

Recommendations

The Board and District officials should:

1. Develop a plan to reduce the amount of unrestricted fund balance in a manner that benefits District taxpayers. Such uses could include, but are not limited to:

- Using surplus funds as a financing source;
 - Funding one-time expenditures;
 - Funding needed reserves; and
 - Reducing property taxes.
2. Develop realistic budgeted appropriations based on prior year's results and anticipated operations to avoid raising more real property taxes than necessary.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

TOWN OF WEBB UNION FREE SCHOOL DISTRICT
3002 State Route 28, P.O. Box 38
Old Forge, New York 13420

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www.towschool.org

June 24, 2016

NYS Office of the State Comptroller, Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls, NY 12801

To Whom it May Concern:

On behalf of the Board of Education and the District's administration we would like to thank the local field staff of the Comptroller's Office for their time, insight and thoughtfulness while engaged with the District. The audit process was professional and transparent. Any questions we had during the process were addressed and answered promptly and completely. We are pleased that the outcome of the audit indicates there was no evidence of fraud, material weakness or operational improprieties. The positive comments verbalized by the field office staff to the administration regarding the operations of the Town of Webb UFSD were appreciated.

The time the field staff spent in the District allowed them to realize the uniqueness of the school when compared to others both regionally and across New York. The District is large geographically one of the largest in the state with over 460 square miles of coverage, yet is small in population with approximately 270 students in grades K-12 at the time of the audit. The District is property wealthy with property valuations totaling close to 2 billion dollars with tax rates per thousand being one of the lowest in New York. The District believes the students deserve a complete educational program including choices in electives and athletics. The community has a long standing history of support for the school and the program it is able to offer to the students.

The audit resulted in the following recommendations to the District:

Develop a plan to reduce the amount of unrestricted fund balance in a manner that benefits District tax payers. Such uses could include, but are not limited to:

- **Using surplus funds as a financing source**
- **Funding one-time expenditures**
- **Funding needed reserves**
- **Reducing property taxes.**

The mission of the Town of Webb UFSD, in collaboration with the community, is to foster academic excellence, create responsible citizens, and promote life-long learning.

Corrective Action Plan: The District acknowledges the fund balance is over the statutory limit and has been working to reduce the percentage over the past number of years without overburdening the tax payers. The District will continue to look for the one-time expenditures to repair and improve the aging facilities as identified in the building condition survey. The District will look to appropriately replenish reserves and increase the funds available within the voter approved Capital Reserve while further developing the capital project plan that will need to be funded in the absence of any significant building aide. The District will continue to use anticipated unexpended funds as a funding source while preparing future budgets and continuing in the efforts to be fiscally responsible to the tax payers of the District and educationally responsible to our students.

Develop realistic budgeted appropriations based on prior year's results and anticipated operations to avoid raising more real property taxes than necessary.

Corrective Action Plan: The Town of Webb UFSD agrees with the examiner in the development of reasonable, realistic appropriation plans and will continue to exercise this practice while also keeping the expectations and desires of the taxpayers and students in realistic view. The District will continue with its' current practice of comparing and using prior year's budgeted vs. actual expenditures as well as budget trend analysis and budget forecasting for upcoming years. The District will continue to use this practice to ensure that tax rates do not become unstable or inappropriately burdensome to the taxpayers, noting the potential impact the tax levy limit can have on any District that sees significant changes in its annual spending plan in a multi-year budgetary planning process.

We would like to thank your staff again for their professionalism. We see the audit process as a valuable tool to further drive and inform the long-term fiscal and programmatic goals and success.

Kathleen A. Nahor, Board President

Rex A. Germer, Superintendent

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed the Superintendent and other District officials to gain an understanding of the District's financial management policies and procedures. This included inquiries about the District's budgeting practices and the development of plans to maintain the District's fiscal stability and fund balance.
- We analyzed the District's financial records for the general fund for fiscal years 2012-13 through 2014-15 to determine if the general fund's unrestricted fund balance increased or declined. We also evaluated any factors contributing to the increase or decline.
- We determined if the Board adopts general fund budgets that are realistic and structurally balanced by comparing the adopted general fund budgets for fiscal years 2012-13 through 2014-15 with the actual results of operations.
- 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 documentation.
- We determined if the financial condition of the general fund has increased or the fund balance is in excess of statutory limits by analyzing if fund balance has increased or exceeds statutory limits and if operating deficits have been realized. We also determined if, planned or unplanned, reserve funds have been financed through the annual budget process or through the transfer of surplus funds and if reserves balance increases have been planned for specific purposes.
- We added back the unused appropriated fund balance to the general fund's unrestricted fund balance to determine how much the District's fund balance was over the statutory limit during the last three fiscal years.
- We determined if the Board and District officials are aware of excessive general fund balance.

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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