



Walton Central School District Financial Condition

Report of Examination

Period Covered:

July 1, 2012 — January 13, 2014

2014M-118



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2014

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 Walton 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 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 Walton School District (District) is located in the Towns of Walton, Franklin, Hamden, Masonville, Sidney and Tompkins in Delaware County. The District is governed by the Board of Education (Board) which comprises seven 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 Business Manager is responsible for accounting for the District's finances, maintaining accounting records and preparing financial reports.

The District operates two schools with approximately 1,025 students and 200 employees. The District's budgeted expenditures for the 2013-14 fiscal year are approximately \$20 million, funded primarily with State aid and real property taxes.

Objective

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

- Did the Board and District management effectively manage the use of fund balance?

Scope and Methodology

We examined the District's financial records for the period July 1, 2012 through January 13, 2014. To analyze the District's historical and projected fund balance, budget estimates and financial trends, we extended our audit scope period back to July 1, 2010 and projected forward through June 30, 2014.¹

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 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 and indicated they planned to initiate corrective action. Appendix B includes our comment on an issue raised in the District's response.

¹ Results as of June 30, 2014 are based on unaudited information.

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 primary factor in determining its ability to continue providing public educational services for students within the district. The Board and Superintendent are accountable to taxpayers for using District resources wisely and are responsible for effectively managing and planning the District's financial operations. A key measure of a district's financial condition is its fund balance level. When maintained at reasonable levels, fund balance can provide cash flow, help finance the next fiscal year's operations or help manage unexpected costs. However, school district officials should exercise caution when using fund balance to finance day-to-day operations. Instead, fund balance should be considered a better source for financing a district's long-term financial plans.

Additionally, the amount of unrestricted fund balance a school district can retain is limited to no more than 4 percent of the next year's budget appropriations. Therefore, it is essential that District officials develop reasonable budgets and manage fund balance responsibly in accordance with statute. Finally, the Board should prepare and implement a comprehensive multiyear financial plan based on reasonable estimates that projects future revenues and expenditures and prepares the District for any future fiscal challenges.

After incurring several years of operational surpluses, the District reported unrestricted fund balance of more than \$3 million as of June 30, 2010. District administration developed, and the Board adopted, budgets that included plans to use nearly \$2.5 million of fund balance to finance operations during the 2010-11, 2011-12 and 2012-13 fiscal years.² As a result, the District's unassigned fund balance declined by about \$1.53 million or about 94 percent.³

² District officials told us that using fund balance to balance the budgets would allow the District to continue to offer the same level of services offered in the past.

³ While the District's unrestricted fund balance was below the 4 percent statutory limit in 2011-12 and 2012-13, fund balance exceeded the statutory limit in 2010-11.

Figure 1: Fund Balance				
Fiscal Year	2010-11	2011-12	2012-13	2013-14 (Unaudited)
Total Ending Fund Balance	\$3,885,210	\$2,712,162	\$2,046,121	\$1,552,284
Operating Surplus/(Deficit)	\$24,916	(\$1,173,048)	(\$666,046)	(\$534,938)
Total Appropriated Fund Balance	\$820,000	\$820,000	\$855,000	\$1,198,000 ^a
Total Unassigned Fund Balance at Year-End ^b	\$1,636,226	\$695,290	\$102,918 ^c	\$785,871 ^d

^a This includes \$800,000 of appropriated fund balance and \$398,000 from reclassified restricted fund balance that was part of a tax certiorari reserve which District officials deemed to be no longer needed.

^b Unassigned fund balance represents total unrestricted fund balance minus any assigned fund balance.

^c The significant drop in unassigned, unappropriated fund balance was a temporary result due to recording a liability to the Federal Emergency Management Agency (FEMA) for reimbursement. A bond was issued in July 2013 to pay the liability.

^d Total Unassigned Fund Balance at Year-End includes approximately \$116,000 transferred from the employee benefit accrued liability reserve fund to pay for retirement incentives and approximately \$11,000 due to a reduction in encumbrances at year-end.

The District also reduced fund balance by nearly \$477,000 because of a prior period adjustment recorded during the 2010-11 fiscal year to write-off some accounts receivable and adjust accrued interest for a bond anticipation note issued during the 2009-10 fiscal year. We found that the Districts' unrestricted fund balance as a percentage of the next year's budget declined from more than 8 percent to less than 1 percent over this same period. The Board in its 2013-14 budget planned to use nearly \$1.2 million in fund balance as a financing source.

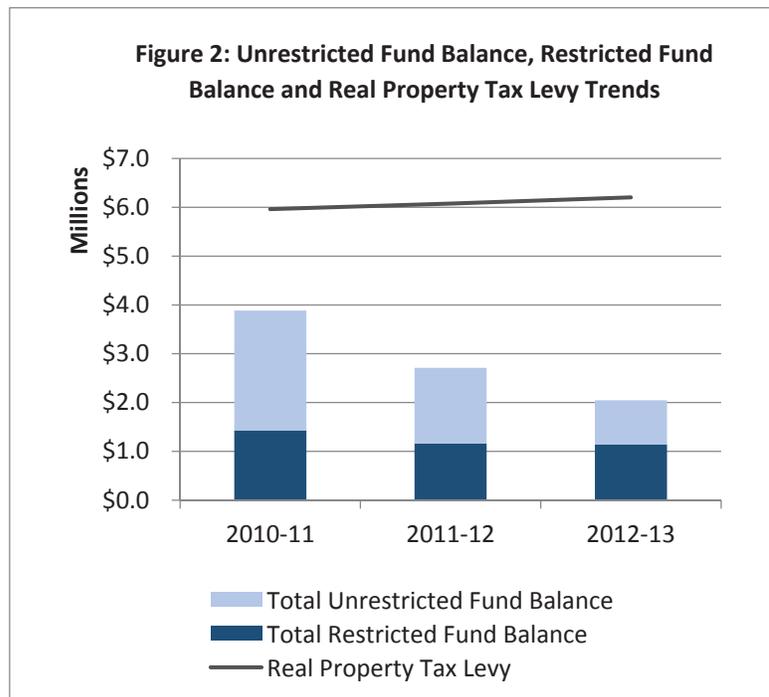
Both the Superintendent and Board President told us that the Board adopted budgets with planned use of fund balance to ensure that real property taxes were levied in accordance with the statutory property tax cap limit.⁴ However, the District accumulated significant money as unrestricted fund balance grew from nearly \$2.5 million to more than \$3 million from 2007-08 through 2009-10.

District officials subsequently used more than \$2 million of these funds from 2010-11 through 2012-13,⁵ while at the same time increasing the real property tax levy by 3.9 percent. Moreover, the Board has not developed a comprehensive multiyear financial plan to address the more prudent use of fund balance to finance a significant long-term building project.⁶ Further, such a plan would have allowed the Board to effectively manage its future finances and helped it monitor and plan for using fund balance.

⁴ Effective beginning in the 2011-12 fiscal year, the District's real property taxes levied annually generally cannot increase more than 2 percent, or the rate of inflation, whichever is lower, with some exceptions. Districts may override the tax levy limit by presenting the voters with a budget that exceeds the statutory limit. However, that budget must be approved by 60 percent of District voters.

⁵ As a result of using fund balance to finance District operations, unrestricted fund balance declined to less than \$1 million from 2010-11 through 2012-13.

⁶ District officials have some important decisions to make regarding the possible relocation of one of the District's school buildings. This building suffered repeated flood damage in 2006 and 2011.



With appropriated fund balance estimated at \$552,000 for the 2014-15 fiscal year, we projected that the District’s unrestricted fund balance will be approximately 3.9 percent of the next year’s budget appropriations. However, using fund balance to finance operations has served to keep the real property tax levy artificially low. As District officials use fund balance for each successive years’ budget, it is no longer a viable financing source.

To maintain the District’s current expenditure levels, other revenue sources will be necessary. For example, if the District did not have sufficient fund balance available to finance operations for the last two completed fiscal years, we estimated that District officials would have had to increase real property taxes by 14 percent in 2012-13 and 19 percent in 2013-14 to continue offering the same level of services offered in the past. Therefore, District officials would have needed to make even tougher choices going forward, because such large increases in real property taxes are likely not realistic or sustainable.⁷

Continuing to incur operating deficits without identifying alternative funding sources beyond unrestricted fund balance and reserves could lead the District to fiscal stress. The statutory tax levy property tax cap limit has limited the District’s ability to increase the real property tax levy. This further inhibits the Board’s ability to finance operations at the current rate of expenditure growth. After all available revenue

⁷ District expenditures grew by 4.7 percent from 2010-11 through 2012-13, while revenues remained basically flat. Expenditures were significantly higher in 2011-12 because of a reimbursement liability paid to FEMA in July 2013.

sources are exhausted, the Board may have no options but to reduce expenditures to maintain the stability of the District's financial condition.

Recommendations

1. District officials should carefully consider the amount of fund balance they appropriate to fund future budgets. The Board should closely monitor the District's use of unrestricted fund balance to ensure that action is taken, if necessary, to identify the use of other funding sources for District operations if these funds are no longer available, or adjust appropriations accordingly.
2. District management should develop, and the Board should adopt and implement, a comprehensive multiyear financial plan for the District and update it annually. Actual results should be carefully monitored to identify potential fiscal difficulties, such as structural imbalances between revenues and expenditures, in a timely manner. The plan should also include how to finance and monitor the District's plan.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

WALTON CENTRAL SCHOOL DISTRICT

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Walton, NY 13856

SUPERINTENDENT OF SCHOOLS
ROGER B. CLOUGH II

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August 12, 2014

H. Todd Eames, Chief Examiner
Binghamton Regional Office
State Office Building – Suite 1702
44 Hawley Street
Binghamton, NY 13901

Dear Mr. Eames:

Please accept this letter as the District's response to your audit. The Walton CSD would like to thank the OSC for its audit of our school financial condition for the period July 1, 2012 – January 6, 2014.

See
Note 1
Page 11

We appreciate the time and effort of your staff and their recommendations to improve.

After the District receives the final version, the District will prepare and file the corrective action plan to address all recommendations.

Sincerely,

A handwritten signature in blue ink, appearing to read 'R.B. Clough II', written in a cursive style.

Roger B. Clough II
Superintendent

rbc/cak



APPENDIX B

OSC COMMENT ON THE DISTRICT'S RESPONSE

Note 1

Our audit period was January 1, 2012 through January 13, 2014.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the District's financial condition for the period July 1, 2012 through January 13, 2014. To analyze the District's historical and projected fund balance, budget estimates and financial trends, we extended our audit scope period back to July 1, 2010 and projected forward through June 30, 2014. To achieve our objective and obtain valid audit evidence, we performed the following procedures:

- We interviewed District officials and reviewed Board meeting minutes and resolutions to gain an understanding of the budgeting process, documented how fund balance available for appropriation was determined and inquired if officials developed a multiyear financial plan, including any future plans for reserves.
- We calculated the results of operations for the general fund over the last three completed fiscal years by comparing actual revenues to actual expenditures including appropriated fund balance, where applicable.
- We analyzed the changes in fund balance for the general fund over the last three completed fiscal years (2010-11, 2011-12 and 2012-13).
- We projected the District's revenues, expenditures and fund balance through June 30, 2014 by reviewing current and past financial information. We assessed District officials' revenue and expenditure projections and interviewed officials to analyze the District's projected financial condition.
- We prepared a trend analysis comparing unrestricted fund balances, reserve fund balances and real property taxes levied for the 2010-11, 2011-12 and 2012-13 fiscal years.

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 D

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