

# Walton Central School District

## Fund Balance

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JANUARY 2020

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

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# Report Highlights

## Walton Central School District

### Audit Objective

Determine whether the Board and District officials properly managed fund balance.

### Key Findings

- The Board appropriated over \$1.9 million in fund balance from 2016-17 through 2018-19 and only used approximately \$282,000.
- As of June 30, 2019, surplus fund balance totaled over \$1.4 million, exceeding the statutory limit by approximately \$590,000 or 2.7 percentage points.
- When unused appropriated fund balance was added back to the surplus fund balance, it totaled over \$2.1 million, exceeding the statutory limit by approximately \$1.3 million or 6 percentage points.

### Key Recommendations

- Adopt budgets that include reasonable estimates for appropriations and the amount of fund balance that will be used to fund operations.
- Reduce surplus fund balance to comply with the statutory limit and use excess funds in a manner beneficial to taxpayers.

District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

### Background

The Walton Central School District (District) serves the Towns of Franklin, Hamden, Masonville, Sidney, Tompkins and Walton in Delaware County.

The District is governed by a seven-member Board of Education (Board) that is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the District's chief executive officer responsible, along with other administrative staff, for the day-to-day management under the Board's direction. The Business Manager is responsible for the development of the annual budget and the supervision of financial activities.

#### Quick Facts

Student Enrollment	922
Employees	203
2019-20 General Fund Budget	\$21.7 million

### Audit Period

July 1, 2018 – August 31 2019.  
We extended our audit period back to July 1, 2016 to review financial operations and trends.

# Fund Balance

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## How Should the Board and Officials Properly Manage Fund Balance?

To effectively manage a district's fund balance, a board must adopt realistic and structurally balanced budgets based on historical trends or other known factors 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 may be available at year-end to use towards 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.

A district may retain a portion of fund balance to provide a cushion against unforeseen events and to provide for fluctuations in cash flow. Officials should ensure that surplus<sup>1</sup> fund balance does not exceed the amount allowed by New York State Real Property Tax Law,<sup>2</sup> which is no more than 4 percent of the ensuing year's budgeted appropriations.

## The Board Overestimated Certain Appropriations

We compared the 2016-17 through 2018-19 estimated revenues and appropriations to actual operating results and found that total revenue variances were generally reasonable (average 0.5 percent) and total appropriation variances were generally reasonable (average 3.3 percent). However, some appropriations were significantly overestimated, such as employee benefits; specifically, medical insurance, which was overestimated an average \$354,000, or 9.2 percent.

Officials told us that they provide a cushion in certain line items in case of emergency or to cover unexpected expenditures. This overestimating trend continued in the 2019-20 budget; however, officials are currently in the process of canceling the District's health insurance contract and are uncertain whether there will be additional costs associated with leaving the plan.

## The Board Appropriated More Fund Balance Than Needed

The Board increased the tax levy from \$6.3 million in 2016-17 to over \$6.6 million in 2019-20 and planned to use fund balance each year as a financing source. However, because the District experienced surpluses in two of the last three years, only \$282,107 of the over \$1.9 million appropriated was used and the surplus fund balance increased to more than \$1.4 million by the end of 2018-19. Had officials maintained the same tax levy as in 2016-17 through 2018-19,

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<sup>1</sup> Surplus fund balance is defined as unrestricted fund balance minus appropriated fund balance and encumbrances included in committed and assigned fund balance. See our accounting bulletin at <https://www.osc.state.ny.us/localgov/pubs/releases/gasb54.pdf>

<sup>2</sup> New York State Real Property Tax Law Section 1318

taxpayers may potentially have realized approximately \$319,000 in cumulative savings and the District still would not have used all of the fund balance that was appropriated.

**Figure 1: Surplus Fund Balance at Year-End**

	2016-17	2017-18	2018-19 (unaudited)
<b>Beginning Total Fund Balance</b>	\$2,578,515	\$2,296,408	\$2,304,295
<b>Add: Operating Results</b>	(\$282,107)	\$7,887	\$66,962
<b>Ending Total Fund Balance</b>	\$2,296,408	\$2,304,295	\$2,371,257
<b>Less: Restricted Fund Balance (Reserves)</b>	\$298,608	\$169,877	\$169,939
<b>Less: Appropriated Fund Balance</b>	\$702,767	\$717,767	\$717,767
<b>Less: Encumbrances</b>	\$28,606	\$43,973	\$23,145
<b>Surplus Fund Balance</b>	\$1,266,427	\$1,372,678	\$1,460,404
<b>Ensuing Year's Budgeted Appropriations</b>	\$20,530,797	\$20,864,607	\$21,745,814
<b>Surplus Fund Balance as a Percentage of Ensuing Year's Budgeted Appropriations<sup>a</sup></b>	6.2%	6.6%	6.7%
<b>Percent Exceeding the Legal Limit<sup>a</sup></b>	2.2%	2.6%	2.7%
<b>Amount Exceeding the Legal Limit</b>	\$445,195	\$538,094	\$590,572
a Rounded			

The District has exceeded the allowable limit for surplus fund balance for 2016-17 through 2018-19 by 2.2 to 2.7 percentage points. Annually appropriating fund balance that is not needed to finance operations is, in effect, a reservation of fund balance not provided by statute and a circumvention of the statutory limit imposed on the surplus fund balance level. When unused appropriated fund balance is added back, surplus fund balance exceeded the limit each year by 3.6 to 6 percentage points.

**Figure 2: Recalculated Surplus Fund Balance at Year-End**

	2016-17	2017-18	2018-19 (unaudited)
<b>Surplus Fund Balance</b>	\$1,266,427	\$1,372,678	\$1,460,405
<b>Unused Appropriated Fund Balance</b>	\$285,089	\$702,767	\$717,767
<b>Recalculated Surplus Fund Balance</b>	\$1,551,516	\$2,075,445	\$2,178,171
<b>Ensuing Year's Budgeted Appropriations</b>	\$20,530,797	\$20,864,607	\$21,745,814
<b>Recalculated Surplus Fund Balance as a Percentage of the Ensuing Year's Budgeted Appropriations<sup>a</sup></b>	7.6%	9.9%	10.0%
<b>% Exceeding the Legal Limit<sup>a</sup></b>	3.6%	5.9%	6.0%
<b>Amount Exceeding the Legal Limit</b>	\$730,284	\$1,240,861	\$1,308,339
a Rounded			

Officials told us that they would be addressing the excessive fund balance. District officials received voter approval on May 21, 2019 to establish a capital reserve and intend to fund the capital reserve with some of the surplus fund balance once they have determined whether they will need to pay additional costs to leave the health insurance plan.

The budgeting practices made it appear that the District needed to both increase taxes and use appropriated fund balance to close projected budget gaps. However, the District realized operating surpluses and, consequently, appropriated fund balance was not needed to finance operations. Given the District's budgeting practices and fund balance levels, the Board levied more taxes than necessary to sustain operations and may have missed opportunities to more effectively manage fund balance and potentially reduce taxes.

### What Do We Recommend?

The Board and District officials should:

1. Adopt budgets that include reasonable estimates for appropriations and the amount of fund balance that will be used to fund operations.
2. Develop a plan to reduce surplus fund balance to comply with the statutory limit. Unrestricted fund balance can be used for:
  - Reducing property taxes.

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- Funding one-time expenditures.
  - Funding needed reserves.
  - Paying off debt.

# Appendix A: Response From District Officials

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## Walton Central School District

Lawrence Thomas, Interim Superintendent of Schools

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**47-49 Stockton Avenue**  
**Walton, NY 13856**  
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**Corey Phraner**  
*District Clerk*

January 7, 2020

New York State Office of State Comptroller  
Binghamton Regional Office  
Attn: Ann C. Singer, Chief Examiner  
State Office Building, Suite 1702  
44 Hawley Street  
Binghamton, NY 13901-4417

Dear Ms. Singer:

Walton Central School District is in receipt of the New York State Office of the State Comptroller's draft audit report entitled "Walton Central School District Fund Balance Report of Examination" covering the period July 1, 2018 to August 31, 2019. Key findings of the report include: (1) The Board appropriated over \$1.9 million in fund balance from 2016-17 to 2018-19 and only used approximately \$282,000, (2) As of June 30, 2019, surplus fund balance totaled over \$1.4 million, exceeding the statutory limit by approximately \$590,000 or 2.7 percentage points, and (3) When unused appropriated fund balance was added back to the surplus fund balance, it totaled over \$2.1 million, exceeding the statutory limit by approximately \$1.3 million or 6 percentage points.

The District offers the following combined response and Corrective Action Plan (CAP).

The District utilizes conservative budgeting practices and makes estimates based on historical expenditures, while also taking into consideration changes that may take place during the ensuing school year. In addition, the District continues to pursue responsible cost saving opportunities throughout the year which, if successful, may result in actual costs being less than anticipated at the time the budget is adopted. There are numerous contingencies that could occur during a fiscal year which may put significant financial strain on the District and could result in spikes in tax levies. The District believes it is prudent to provide for possible contingencies within the adopted budget in order to protect District operations, and to protect the District's taxpayers from unnecessary spikes in tax rates. In a small district such as ours, our financial results can be materially affected positively or negatively by small changes in areas such as required student special education services, mandated transportation services, changes in the cost of health related benefits, or the need to add positions or programs to support every one of the District's

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students. The District has been fortunate in recent years that it has not needed to utilize the full amount of fund balance appropriated in the adopted budget to meet possible contingencies.

Walton Central School District acknowledges the Comptroller's finding that the District's surplus fund balance exceeded the statutory limit. The District is committed to conservative financial management and transparency. The District plans to first address surplus fund balance by taking steps to utilize its current financial position to plan for the future and current capital needs of the District. Steps already taken include the establishment of a voter approved capital reserve fund to save for future building needs, and plans to fund a capital outlay project in the upcoming years draft budget to address short term capital needs. The District plans to fund the established capital reserve using surplus fund balance amounts that are determined to be available each year. The District is also in the process of developing a long term financial plan. This will assist with identifying one-time expenditures that may be funded with surplus fund balance, and will also provide the District with a tool to help project available fund balance in future years. Once necessary long and short term capital needs and identified one time expenditures have been considered as a method to reduce surplus fund balance, the District may further consider a reduction in property taxes and/or paying off eligible debt. The District will analyze existing fund balance levels, while also taking into account the need to plan for possible contingencies and to ensure there is adequate cash flow to meet operating needs.

The District wishes to thank the New York State Comptroller's Office and the examiners that worked with the District for their professionalism and cooperation throughout the audit. The District will continue to strive to ensure we are including appropriate estimates for appropriations within our adopted budgets, and are monitoring fund balance levels to comply with statutory requirements, while continuing to be good stewards of our taxpayer funds.

Sincerely,

Lawrence A. Thomas  
Interim Superintendent of Schools

Ronda L. Williams  
President, Board of Education

MH:scp

Cc: Board of Education  
School Business Manager

## 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 reviewed Board minutes and policies to gain an understanding of financial management policies and procedures and budgeting practices.
- We reviewed the adopted general fund budgets from 2016-17 through 2018-19 to determine whether they were reasonable and structurally balanced by comparing adopted budgets with actual results of operations and analyzing significant budget-to-actual variances to determine why they occurred.
- We reviewed the adopted 2019-20 general fund budget to determine whether similar budgeting trends existed in comparison with the 2016-17 through 2018-19 adopted budgets.
- We reviewed the fund balance appropriated for 2016-17 through 2018-19 and calculated how much was actually used.
- We calculated surplus fund balance as a percentage of the ensuing year's appropriations for 2016-17 through 2018-19 to assess compliance with statute.
- We recalculated surplus fund balance as a percentage of the ensuing year's appropriations after adding back unused appropriated fund balance for 2016-17 through 2018-19.
- We analyzed the tax levy for 2016-17 through 2019-20 to determine whether there were increases to the levy and whether they were necessary.
- We reviewed the reserve balances as of June 30, 2019 to determine whether they were reasonably funded.

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 next fiscal year. For more information on preparing

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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 District Clerk's office.

## Appendix C: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://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](http://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](http://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](http://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](http://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/pubs/cyber-security-guide.pdf](http://www.osc.state.ny.us/localgov/pubs/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/localgov/finreporting/index.htm](http://www.osc.state.ny.us/localgov/finreporting/index.htm)

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### **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](http://www.osc.state.ny.us/localgov/academy/index.htm)

## Contact

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