New York State Comptroller
THOMAS P. DiNAPOLI

Williamsville Central School District

Financial Management

2022M-193 | April 2023

Division of Local Government and School Accountability

Contents

Report Highlights

Williamsville Central School District

Audit Objective

Determine whether the Williamsville Central School District (District) Board of Education (Board) and District officials properly managed fund balance and reserves.

Key Findings

The Board and District officials did not properly manage the District's fund balance and reserves. As a result, the District levied more taxes than needed to fund operations. The Board and District officials:

- Consistently overestimated general fund appropriations from 2018-19 through 2021-22 by a total of $47 million and appropriated $22 million of fund balance that was not needed or used.
- Adopted annual budgets during the same period that gave the impression that the District would have operating deficits totaling $38 million when it actually had operating surpluses totaling $40 million, for a difference totaling $78 million.
- Were not fully transparent with the public regarding the funding and replenishment of all reserves.

Key Recommendations

- Develop budgets that include reasonable appropriation estimates and only appropriate fund balance when needed.
- Include provisions in adopted budgets for funding and replenishing reserves.

District officials generally disagreed with our findings but indicated that they planned to initiate corrective action. Appendix B includes our comments on issues raised in the District's response.

Background

The Office of the State Comptroller (OSC) issued an audit report in December 2016 (Williamsville Central School District – Financial Management (2016M-274)) that identified similar financial management deficiencies.

The District serves the Towns of Amherst, Clarence and Cheektowaga in Erie County. The District is governed by a nine-member Board that is responsible for managing the District's financial and educational affairs. The Superintendent of Schools (Superintendent), along with other administrative staff, is responsible for the District's day-to-day management under the Board's direction.

The Board, Superintendent and Assistant Superintendent for Finance and Management Services (Business Administrator) are responsible for developing and monitoring the District's annual budget. The Business Administrator also is responsible for maintaining the District's financial records.

Quick Facts	
2021-22 Appropriations	$205 million
Recalculated Surplus Fund Balance as of June 30, 2022	$14 million

Audit Period

July 1, 2018 – July 25, 2022. We obtained the final 2021-22 fiscal-year financial information on November 2, 2022, after the end of our fieldwork.

Financial Management

How Should Fund Balance Be Properly Managed?

To properly manage fund balance, a school district (district) board should adopt reasonably estimated and structurally balanced budgets based on historical data or known trends, in which recurring revenues finance recurring expenditures. In preparing the budget, a board and district officials must estimate the amounts the district will spend and receive, the amount of fund balance that will be available at the end of the fiscal year-end and the expected real property tax levy needed to balance the budget. Accurate budget estimates help ensure that the real property tax levy is not greater than needed.

Accurate budget estimates help ensure that the real property tax levy is not greater than needed.

Fund balance represents the cumulative residual resources from prior fiscal years. New York State Real Property Tax Law Section 1318 currently limits the amount of surplus fund balance that a district can retain to 4 percent of the next year's budget. A board must use any surplus fund balance greater than this percentage to reduce the upcoming fiscal year's real property tax levy or to fund needed reserves.

The Board and District Officials Did Not Adopt Realistic Budgets

We compared estimated revenues and budgeted appropriations with actual operating results for 2018-19 through 2021-22 to determine whether budget estimates were reasonable. Estimated revenues were generally reasonable, with a four-year underestimated variance of $16 million (2 percent). However, appropriations were overestimated by an average of $11.7 million (6 percent) each year, or a total of almost $47 million (Figure 1).

Figure 1: Appropriations to Actual Expenditure Comparison (in millions)[a]

	2018-19	2019-20	2020-21	2021-22	Total
Appropriations	$186.6	$191.8	$194.1	$199.8	**$772.3**
Actual Expenditures	$181.0	$172.5	$180.6	$191.6	**$725.7**
Overestimated Appropriations	$5.6	$19.3	$13.5	$8.2	**$46.6**
Percentage Overestimated[b]	3%	11%	7%	4%	**6%**

a Before interfund transfers
b Overestimated appropriations divided by actual expenditures

The most significant overestimated appropriations were for:

- Programs for students with disabilities,
- Teacher salaries – regular school,
- Hospital, medical and dental insurance (self-funded health insurance),
- Plant operations,

- Retirement system contributions and
- Occupational education.

These appropriations were overestimated by between 4 and 28 percent, or a total of approximately $47 million, from 2018-19 through 2021-22 (Figure 2).

Figure 2: Cumulative Budget Variances, 2018-19 Through 2021-22 (in millions)

	Appropriations	Actual Expenditures	Overestimated Appropriations	Percent
Program For Students With Disabilities	$80.9	$68.5	$12.4	18%
Teacher Salaries – Regular School	291.9	280.6	11.3	4%
Hospital, Medical and Dental Insurance	76.4	65.1	11.3	17%
Plant Operations	41.1	33.5	7.6	23%
Retirement System Contributions	12.3	9.8	2.5	26%
Occupational Education	11.0	8.6	2.4	28%
Totals	**$513.6**	**$466.1**	**$47.5**	**10%**

Although historical trends showed that these appropriations had been previously overestimated, officials continued to increase the amount budgeted each year even though actual expenditures were consistently less than appropriations. For example, in 2020-21, actual expenditures for programs for students with disabilities totaled $17 million, which was $2.4 million less than appropriations. However, officials increased the 2021-22 appropriation for the program by approximately $8 million (46 percent) to approximately $25 million. Actual expenditures for 2021-22 were approximately $18 million, or approximately $6.4 million less than budgeted.

The program for students with disabilities had a total four-year budget variance of $12.4 million. The Business Administrator told us that officials generally budgeted conservatively for these expenditures because the program's total cost fluctuated each year based on students' needs.

We reviewed the program's total costs and found that costs increased each year by amounts ranging between $46,000 and $1.4 million, or between 1 and 8 percent. The program's total cost increased by approximately $2.4 million (15 percent) during the past four years, but appropriations increased by more than $6 million (34 percent) during the same period. The program also was partially funded with federal grants, but officials did not take grant funding into consideration when developing their budget estimates and, instead, levied taxes for the program’s total cost. However, if anticipated grant funds were considered, officials could provide a more accurate budget estimate each year and avoid levying real property taxes to pay for expenditures that likely would be covered by grants.

Appropriations for teacher salaries (regular school) were overestimated by between $1 million and $5 million. The Business Administrator told us that salaries were lower than estimated due to teachers taking extended unpaid leave and temporarily being replaced by substitute teachers, who were paid at lower rates. However, because salaries were determined by contractual agreements, officials should have been able to reasonably estimate these amounts in the annual budgets.

The Business Administrator told us that appropriations for hospital, medical and dental insurance; plant operations; and retirement system contributions were overestimated because these expenditures tended to fluctuate and were difficult for officials to estimate at budget time. The Business Administrator told us that, because the District was self-insured, its hospital, medical and dental insurance expenditures were based on actual claims rather than pre-established rates. Consequently, actual costs fluctuated from year to year, decreasing by more than $2 million in one year and then increasing by more than $2 million in another year. However, the District’s health benefit costs on average totaled approximately $16 million, or approximately 85 percent of hospital, medical and dental insurance appropriations each year. Therefore, expenditures were consistently less than the amount budgeted.

The Business Administrator also told us that plant operations expenditures were unpredictable due to fluctuating natural gas, electricity and fuel prices. However, we reviewed budget variances for utilities and found that, although they fluctuated from year to year, they still remained less than the appropriations by approximately $430,000 (2020-21) up to almost $1.9 million (2019-20).

While certain expenditures, such as health benefit claims and fuel and electricity costs, fluctuated from year to year, and could be difficult to predict with certainty, officials should use historic trends to prepare better estimates. Officials also should consider previous years’ results of operations and surplus fund balance, which totaled $8.5 million at the end of 2021-22, that is available to accommodate such expenditures. Surplus fund balance is intended to cover unplanned expenditures.

In addition to using historic trends, officials should use any other information available to accurately estimate appropriations, such as retirement contribution rates provided by the retirement systems well before the budget is adopted. The Business Administrator told us that even though retirement contribution rates were available and could be used to develop better budget estimates, officials instead increased appropriations each year, even when rates decreased.

District officials said that by consistently increasing appropriations they could minimize the effect of any potentially significant increase, should there be one, in any given year. However, when officials ignore contribution rates and systematically increase appropriations each year, whether needed or not, the District routinely levies more taxes than is needed. The Business Administrator confirmed that the appropriations for occupational education were overestimated. Therefore, he would include a more realistic estimate in the 2023-24 budget.

Furthermore, the Business administrator told us that when officials overestimated appropriations, this generated operating surpluses, which was used to make unbudgeted debt principal payments and reduce total outstanding indebtedness by approximately $4 million, fund capital and other reserves, and maintain surplus fund balance at 4 percent. However, a more appropriate means of funding reserves and paying down debt would be to include provisions in the annual budgets for these purposes and use other appropriations as budgeted. District officials are not being transparent with the public when they intentionally overestimate appropriations to consistently create operating surpluses to fund reserves and pay down debt.

The Board and District Officials Appropriated Fund Balance That Was Not Needed

Because the Board and officials overestimated appropriations, it appeared that they needed to appropriate fund balance and increase real property taxes to close projected budget gaps. In the 2018-19 through 2021-22 budgets, officials appropriated an average of $5.5 million of fund balance and $4 million of reserves each fiscal year and increased real property taxes by approximately $11 million. However, the District incurred operating surpluses in each of these four fiscal years, which meant that appropriated fund balance and reserve funds were not needed to finance expenditures.

When fund balance and reserves are appropriated for the next year's budget, the expectation is that there will be a planned operating deficit approximately equal to the amount of fund balance and reserves that was appropriated. Even though the adopted budgets suggested that the District would have operating deficits totaling $38 million, the District experienced an operating surplus in all four fiscal years totaling approximately $40 million, for a difference totaling $78 million.

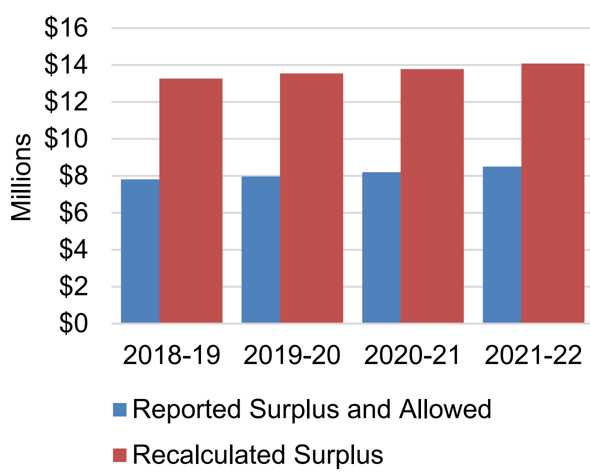
Including appropriated fund balance in the annual budgets, which historically goes unneeded or unused, does not provide a transparent budget process for taxpayers. Officials' practice of appropriating fund balance that is not needed to finance operations is, in effect, a reservation of fund balance that is not provided for by statute. Also, it functions as a means to circumvent the statutory limit imposed on the level of surplus fund balance that the District may retain at the end of each fiscal year. The practice of appropriating fund balance that is not needed artificially reduces the amount of surplus fund balance subject to the statutory limit, giving the appearance that surplus fund balance is within or close to the statutory limit.

The District's reported surplus fund balance was at the 4 percent statutory limit during our audit period. However, when unused appropriated fund balance of approximately $5.5 million is added back each fiscal year, the recalculated surplus fund balance exceeded the statutory limit by 3 percentage points (Figure 3).

We reviewed the 2022-23 budget and found that officials continued similar budget practices. For example, they appropriated the same amount of fund balance. Also, the six budgeted appropriations previously discussed (with the most significant variances) increased by a total of approximately $18 million (16 percent) above 2021-22 actual expenditures. As a result, we project an operating surplus for 2022-23.

FIGURE 3

Recalculated Surplus Fund Balance



By continually appropriating fund balance that was not needed and overestimating budgeted appropriations, the Board and officials did not present the District's surplus fund balance or budget in a transparent manner, maintained real property taxes at a level higher than necessary for operations and missed opportunities to lower real property taxes.

How Should the Board Manage Reserve Funds?

Districts are allowed to establish reserves and accumulate funds for certain future purposes (e.g., unemployment or retirement expenditures). While districts are generally not limited as to the amount of funds that can be held in reserves, the balances should be reasonable. A board should balance the intent for accumulating funds for identified future needs with the obligation to ensure real property taxes are not higher than necessary.

To help ensure that reserve balances do not exceed the amount needed to address long-term obligations or planned expenditures, a board should adopt a comprehensive written policy that states the board's rationale for establishing reserve funds and the objectives for each reserve, maximum targeted funding levels and conditions under which reserves will be used or replenished. The policy also should require periodic reviews of reserve balances to assess reasonableness.

The Board and District Officials Did Not Manage Reserves in a Transparent Manner

As of June 30, 2022, the District reported 11 general fund reserves totaling $61.6 million. For three capital reserves ($28 million), the maximum balance and intended use of the reserves was included in the capital reserve resolutions adopted by the Board and the propositions approved by the voters. The District also had the following reserves:

- Employees retirement contribution ($8.5 million),
- Teachers retirement contribution ($4.9 million),
- Employee benefit accrued liability ($9.2 million),
- Repair reserve ($5.5 million),
- Workers' compensation ($3 million),
- Insurance reserve ($2 million),
- Tax certiorari ($350,000) and
- Unemployment insurance ($158,000).

The District's reserve funds were properly established and reasonably funded. Also, the District's reserve policy stated that "any and all District reserve funds shall be properly established and maintained to promote the goals of creating an open, transparent and accountable use of public funds." However, with the exception of the capital reserves, insurance reserve and repair reserve, the Board and District officials were not fully transparent with the public. In addition, they did not update the reserve policy as recommended by our previous audit. The reserve policy does not establish maximum funding levels for each reserve, the conditions necessary for using reserve funds to finance related costs, or the circumstances under which reserve funds will be replenished.

The District appropriated a total of $11 million in reserves as a funding source in the general fund budgets for 2018-19 through 2020-21. However, for some of the reserves in the past three fiscal years, officials prepared a fiscal year-end journal entry to charge related expenditures to the reserves and another journal entry to replenish the reserves, using a combination of interest earnings and operating surpluses. This practice generally restored the balances to their previous levels (before the expenditures were charged to them) or, in some instances, increased the reserve balances.

…[T]hese reserve funds were not actually used as indicated in the adopted budget.

From 2018-19 through 2020-21, approximately $8 million was expended from these reserves, but approximately $12.6 million from operating surpluses and approximately $700,000 in interest was used to replenish these reserves. For example, in 2019-20, approximately $2.4 million was appropriated from the employees retirement contribution reserve and used to pay retirement contribution expenditures. However, the reserve was replenished for the same amount and increased by $94,000 with interest earnings.

Similarly, $600,000 was appropriated from the workers' compensation reserve and used to pay claims. However, the reserve was replenished by $1.5 million (more than the amount expensed plus interest). As a result, these reserve funds were not actually used as indicated in the adopted budget.

For 2021-22, officials appropriated $3.8 million from these reserves, expended $3.8 million, replenished the employees retirement contribution reserve by $1.8 million and funded the teachers retirement contribution reserve by $1.7 million.

A more appropriate method the Board could use to demonstrate its intent to fund or replenish reserves would be to include a provision in the proposed budget to increase the reserves, so that residents could have an opportunity to approve or deny the increases. In this way, District residents would be aware of the Board's intent to both fund and charge expenditures to reserves during the upcoming fiscal year.

What Do We Recommend?

The Board and District officials should:

1. Develop and adopt budgets that include reasonable estimates for appropriations and the amount of fund balance that will be used to finance operations.

2. Discontinue the practice of appropriating fund balance that is not needed or used to fund operations.

3. Revise the reserve fund policy to ensure that it identifies optimal or targeted funding levels for each reserve and the conditions under which each reserve fund will be used or replenished.

4. Include provisions in the adopted budget for funding and replenishing reserves.

Appendix A: Response From District Officials

Williamsville Central Schools
Encouraging • Nurturing • Challenging

Dr. Darren J. Brown-Hall
Superintendent of Schools
dbrown-hall@williamsvillek12.org

March 30, 2023

Ms. Melissa Myers
Office of the New York State Comptroller
Chief of Municipal Audits
295 Main Street, Room 1032
Buffalo, New York 14203

Dear Ms. Myers,

The New York State Comptroller's audit findings on our District's budget and reserve methods state that we did not manage fund balance and reserves effectively and therefore levied more taxes than needed. The Comptroller's report further states that the District overestimated appropriations thereby resulting in operating surpluses. The Comptroller's report further assumes that when the District appropriates fund balance and reserves in its revenue budget, it is doing so because it is projecting a budget deficit. Lastly, the Comptroller's report is based on calculations that compare appropriations (budget) to actual expenses. The District does not agree with these conclusions and will state the reasons for our disagreement in this response. However, the District has reviewed your findings in an objective manner and will address aspects of your recommendations with the intent on further improving the District's accounting and budgeting processes.

See Note 1 Page 18

It is very important to state that this audit's review period included two COVID-19 impacted school years, 2019-20 (close-down in March 2020) and 2020-21 (a partially remote learning year that included core instruction only). These were not typical years of operation which resulted in significantly lower expenses versus appropriations. It is important to also state that the finances in these years were supplemented with federal grant funding which reduced general fund expenses.

See Note 2 Page 18

The District's response to the audit will address four major financial audited areas. The first area will be the adoption of realistic budgets where the Comptroller report reviews appropriations versus actual expenses. The second area that will be addressed is to respond to the identified areas of cumulative budget variances. Our third area of response will address the use of appropriated fund balance and reserves and the fourth area is the refunding or replenishment of reserves. We conclude our response to this audit with a summary on the District's position regarding the audit findings.

The District's response to overestimated appropriations

1. **Appropriations to actual expenditures, Figure 1**

The Comptroller's report on page 4, Figure 1, states that the District overestimated appropriations by an average of 6.25% over four years. However, it is important to state that this included 2019-20

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which was the year of the COVID-19 state-wide school district close-down. Aside from paying salaries, the district was essentially closed after March 19, 2020 – June 30, 2020. Not only did this shut-down eliminate many expenses, it also resulted in the then Governor Cuomo publicly stating that school district could anticipate a 20% reduction in state aid in their 2020-21 school budgets. The District initiated a term plan that froze all school spending unless it was for emergency purposes. This was done purposely to allow for the potential use of additional fund balance and reserves to be available for use in the next school year. Additionally, the District did not expend funds for school bus transportation. This was a significant savings since regular home to school, field trips, and athletic trip costs were not incurred by the district.

See Note 2 Page 18

In the 2020-21 school year students returned to school in the middle of the COVID-19 pandemic. This school year was not normal. The District did not have normal school year operating expenses. This year initially began with remote learning and a hybrid model for student learning. Parents had the choice of keeping their children home for remote learning, sending them to school for two days a week and having them home for two days of the week for remote learning. Students were not in-school on Wednesdays (asynchronous instruction occurred). This learning model did not result in normal school year expenses. Other examples on how COVID-19 impacted our expenses were through program adjustments that limited student extracurricular activities including sports, field trips and certain in-school and after-school student instructional programs. All of these items had a major impact on why the District had lower expenses in these two years. It is also relevant and important to state that the Federal grant funding, FEMA funding as well as New York State's Cares Act funding which was provided to the district by Erie County were all accounted for as required, in the special aid fund, not the general fund. In total, Williamsville received total grant allocations of $14.5 million dollars that were available for use over a multi-year period of time beginning in the 2020-21 school year. The receipt of these funds reduced the actual expenses that would have been included in the general fund. There was no preparing for COVID-19 throughout the entire world and the District could not anticipate the receipt of the grant funding or the total impact COVID-19 would have on our budget. It is also important to state that each federal grant requires that the District create a plan for continuing to fund the grant paid expenses when the grant funds end. This fact required the District to maintain budgets in the succeeding years such as 2021-22. This causes variances in budgets that will not be there when the federal grants end. The fact that the District's variance from appropriations to expenses are greater in 2019-20, 2020-21 is reflective of impact COVID-19 had on our district including the use of federal grant program funding. Additionally, when reviewing the 2018-19 in figure 1, a year prior to COVID-19 and a more normal year after COVID-19, 2021-22, the overestimation percentages are 3% and 4%. These are not unreasonable budget variances for a district that has a combined revenue and expense budget of $400,000 million dollars.

<u>Addendum to Cumulative Budget Variances, Figure 1</u>

The District would like to share another perspective that includes important factual information on actual revenues less actual expenditures versus the Comptroller's comparison of appropriations versus expenses.

Per Annual External Audit	2018-19	2019-20	2020-21	2021-22	Cumulative
Actual revenues	$ 185,381,337	$ 189,856,901	$ 188,374,369	$ 202,004,696	$ 765,617,303
Actual expenses	$ 170,791,952	$ 165,842,403	$ 175,057,644	$ 179,036,633	$ 690,728,632
	$ 14,589,385	$ 24,014,498	$ 13,316,725	$ 22,968,063	$ 74,888,671
Transfers	$ (14,189,156)	$ (9,470,774)	$ (18,134,402)	$ (27,916,732)	$ (69,711,064)
Net change in FB	$ 400,229	$ 14,543,724	$ (4,817,677)	$ (4,948,669)	$ 5,177,607
					0.36%

See Note 3 Page 18

The information shows the actual performance of our budgets in a different light. First, actual versus actual is what generates fund balance. Fund balance is not generated from appropriations less actual expenses. The information above shows the change in fund balance as reported in the District's annual audit reports. The net change in fund balance over four years was $5,177,607 or 0.36%. It is important to state that transfers represent debt service payments including bond anticipation note paydowns. Debt paydown was a recommended option to our District by the New York State Comptroller in a past audit. These paydowns save the district taxpayer millions of dollars in interest payments. In the prior two fiscal years, paydowns totaled $21 million dollars. Assuming a 4.0% interest payment on this debt, the district saved taxpayers $6.7 million dollars over a thirteen-year period-of-time. The transfer line also includes utilization of capital reserve funds that were saved by our district as a result of past fund balance savings. The capital reserve allocations were approved by our community for use in our music improvement and security capital projects. The total amount was $25,699,930. The ability for the District to save dollars and apply them to these projects eliminated borrowing and resulted in debt interest savings of $8.1 million dollars. To recap, utilizing budget savings resulted in saving taxpayers $14.2 million dollars in interest payments.

See Note 3 Page 18

The District's response to specific budget variance areas

1. <u>Cumulative Budget Variances. Figure 2</u>

The audit references several specific areas in figure 2 regarding higher overall appropriation to actual expenses. First, it is important to state that these percentages are the summation of four years.

Figure 2, Cumulative Budget Variances 2018-19 - Through 2021-22 in millions (Average Variance per year)					
				Cumulative	Average Annual
Program with Disabilities	$ 80.90	$ 68.50	$ 12.40	15.3%	3.8%
Teacher salaries-regular school	$ 291.90	$ 280.60	$ 11.30	3.9%	1.0%
Hospital, Medical and Dental Insurance	$ 76.40	$ 65.10	$ 11.30	14.8%	3.7%
Plant Operations	$ 41.10	$ 33.50	$ 7.60	18.5%	4.6%
Retirement Contributions	$ 12.30	$ 9.80	$ 2.50	20.3%	5.1%
Occupational Education'	$ 11.00	$ 8.60	$ 2.40	21.8%	5.5%
Total	$ 513.60	$ 466.10	$ 47.50	9.2%	2.3%

When you review these areas for the average annual variances it reflects a normal budget cycle plan variance for these areas. Each of these areas is an integral part of every budget development cycle. The ability to adequately budget each of these areas for the related expenses must essentially address the upcoming fifteen-month period of time. This requires some budget flexibility.

Program For Students with Disabilities

The program for students with disabilities annual variance is 3.8%. The most important district goal for our special education program is providing students with programs that fit their needs. These programs are reviewed on an annual basis for our students. Student needs change as do program offerings. Program expenses also change. Our district has seen the cost for placing our students in an educational program increase $699,532 from 2018-19 to 2021-22. In recent years, these costs have increased over the budgeted amount. It is important that the District maintain a reasonable budget appropriation in our special education area to support students needs. The District believes that the 3.8% annual percentage is reasonable especially upon the factual increases the District has seen in this program area.

Teacher salaries – regular school

The report shows that teacher salaries have an annual appropriation to expense variance of 1%. The District believes this is an acceptable budget.

Hospital, Medical and Dental Insurance

The audit states that the District had excess dollars budgeted in hospital-medical expenses. It is important to state that the District is self-funded for these expenses and New York State does not currently authorize school districts to establish reserves for self-funded health insurance plans. The District does budget a amount higher amount to cover unanticipated increases in actual costs. The hospital medical expense area was impacted by COVID-19. During COVID-19, elective surgeries and medical procedures were not available. This resulted in expenses being lower than normal. However, in 2021-22, the expenses increased by more than $2 million dollars. At the end of the 2021-22 year, our budget surplus in these codes was $136,746. This represents a 0.007% percentage of expense over the budget appropriation amount. The large increase experienced in 2021-22 effectively justifies and validates the past budget practice of providing a 3.7% annual variance in these codes to respond to unforeseen medical expenses from our self-funding plans.

Plant Operations

The district's plant operations are another area cited in this audit as having overestimated appropriations. The COVID-19 issues impacted this area as well. From lower energy costs due to the shut-down, use of grant funds for cleaning/disinfecting supplies and the fact that staff changes in this area directly related to COVID-19 have resulted in unfilled positions. The district is continuously advertising for facility positions. The labor market in this area is weak and like other school districts and the private sector, workers are difficult to come by. The District requires these positions to maintain our schools and school sites. In the last few years the department has been under staffed by over 30 positions on a daily basis. This directly reduces salary costs reported in the plant operations budget. In the current school year, hiring and retention have improved slightly and the District is hopeful to be close to full staffing in the 2023-24 school year. As for the other facility budget areas, inflation has impacted supply costs, service costs, and especially energy costs. The 2022 annual inflation rate was 6.5%. To date, in 2023, the current inflation rate is 6.0% over 2022. The inflation rates impact higher costs for supplies and services that the facility area must purchase to complete their work. Aside from salaries and supplies, the largest expense in this area is utilities. Per the February

2023, Bureau of Labor Statistic report, electricity costs have risen 12.9% and natural gas rose 14.3% over the last 12 months. Past district budgets as well as future budgets must recognize that there could be increases in utility costs. The ability for the District to have sufficient budgets in these areas to address these increases supports past, current and future budget methodology. The 4.6% annual variance in this area is reasonable considering the current inflationary impact on energy costs and the fact that we expect to fill our current staff vacancies.

Retirement Contributions
Our District is required to participate in both New York State retirement system plans. The plan contribution percentages vary each year and they are set by these plans. As a result of this fact the rates fluctuate each year. This creates a budget decision on whether to adjust the budgeted amount each year creating a yo-yo effect or to budget this in a smooth manner which minimizes the overall impact of budget changes in the annual budget development process. The District has been informed that the percentages have increased for both systems for the 2023-24 budget. The current budget methodology reduces or eliminates the need for major budget increases that negatively impact our overall budget development process. The District will review this area closely in future budgets and make adjustments based on changes in the contribution rates and with consideration given to the usage of our retirement reserve fund.

Occupational Education
The occupational education variance is the result of the District transitioning the salary budgets in this area from a central functional budget code to school-based budget codes as required by the school transparency report requirement. The variance due to this issue is approximately $1.5 million dollars. The salary budget was in occupational education and the expenses were recorded in school budget codes. This budget item has been corrected in the 2023-24 budget.

The District's response to fund balance and reserve planning and replenishment

2. **Appropriated Fund Balance and Reserves**

This audit makes a statement that appropriated fund balance is not needed. The District has been transparent in explaining to our community each year how and why appropriated fund balance and reserves are used in our budget within the annual long-range financial plan. This plan is presented at the December Board of Education meeting and the written plan specifically addresses this on pages 21 and 22. An excerpt is provided here.

See Note 4 Page 18

"The usage of appropriated reserves and fund balance in school district budgets can be a source of confusion because many times a school district will generate surpluses at the end of the fiscal year.

The term fund balance may be defined as the total amount of revenue that exceeds the total expenses incurred by a district at the conclusion of the fiscal year. End of year fund balance may be allocated to various reserves and accounts based on New York State laws.

When fund balance and reserves are appropriated as a revenue in the operating budget, it is done with an understanding that they are considered temporary revenues. In other words, once expended, there is no guarantee that the District will be able to provide the same amount of revenue from fund balance/reserves in future budgets. Essentially, it is like using your savings account to pay your mortgage and utility bills. These monthly expenses *will continue every month as long as you own your home. Once you have exhausted your savings, you still must pay your monthly mortgage and utility bills. To balance your budget without your savings, you must increase your income or reduce other expenses to pay for the mortgage and utility expenses.*

It is important to understand that fund balance appropriations provide budget protection. This item is relevant to statements made by the Office the New York State Comptroller who frequently state that when school districts do not use these funds they are over-taxing their communities. This statement does not consider the fact that if a district were to use these appropriations instead of tax dollars, essentially, reducing the tax levy, they will eventually have a revenue deficit situation when their fund balance amounts are exhausted. Interestingly, the lack of fund balance would likely result in the Office of the State Comptroller categorizing the district as being in fiscal stress."

See Note 5 Page 18

Another district point regarding the budgeting methodology for fund balance and appropriated reserves is that if the District removed the revenue from these items it would balance its budget by reducing a similar amount in the expense budget. This budget would eliminate all flexibility to respond to increases beyond the budget amounts in each category. It would also eliminate the ability for the District to proactively implement financial planning in the future. These adjustments would not impact the tax levy, it would be the same amount."

See Note 6 Page 18

The District provides full transparency prior to each budget development cycle when it comes to reviewing fund balance and reserve appropriations with our community. However, if fund balance/reserve appropriations are removed from the revenue budget, similar reductions are required to be removed from the expense budget. These changes eliminate the ability to respond to unknown expenses or a reduction in revenues such as mid-year state aid reductions, lower revenues in other categories, instruction program changes, utility increases, special education student placements, and the implementation of pilot programs to determine the full potential of a new program. Can a reduced budget manage these items, yes, however it would mean eliminating other budget areas and reallocating dollars that would negatively impact the district in the short and long-term periods.

See Note 4 Page 18

The District's response to reserve funding

3. <u>Funding and replenishment of reserves</u>

The replenishment of reserves is something that the District shares with our community in the annual property tax report card, June reserve authorization Board agenda item, full reserve disclosure report in November and as part of the long-range reserve forecast that is presented at the December Board of Education meeting. The accounting process followed by the District conforms to accepted principles. The reserve expenses that have an appropriation amount are closed out into the reserves at year-end. A stable long-range reserve plan must consider annual changes in reserve category funding needs and this is done for each reserve during the year-end process. The District documents reserve balance changes and refunding amounts. In pertinent situations, documentation from external consultants provide the District with future monetary exposure to such self-funded areas as workers compensation. In other situations, the District follows reserve law, such as the tax certiorari reserve. Based on this information our reserve balances change each year. The Comptroller's report takes issue with the District's process to refund reserves. However as stated in our methodology above, our refunding considers historical, present and future information. If we do not fund reserves and therefore deplete their balances, we would not be in a fiscally responsible position to respond to future financial conditions within the applicable reserve. Lower reserve balances would also detrimentally impact the

See Note 7 Page 19

District's stellar Aa1 bond rating. An important attribute on maintaining this rating is our fund balance and reserve balances. Reductions in this rating would increase our borrowing costs and this would negatively impact our taxpayers.

Summary

The District has shared and defended the budget development methodology it uses for the annual budget process. The information in this audit must consider the fact that two of the four years were impacted by COVID-19 and this resulted in greater budget variances between appropriations and actual expenses. However, referencing figure 1, a 3% over estimation in 2018-19 and a 4% over estimation in 2021-22 is not unwarranted when it comes to the significant revenue and expense challenges facing a school district that has thirteen schools with 9,558 students. A school budget is a single year financial plan that must consider long-term financial planning as well. Williamsville's revenue is generated by three major areas which are state aid, sales tax revenues, and the tax levy. The tax levy is restricted by the New York State tax cap law. Once the amount is established, it cannot change. Sales tax is dependent on the spending of our local community which varies based on the economy. State aid amounts are susceptible to changing at any time, this occurred in the 2009-10 budget. The District lost over 7 million dollars due to the economic impact of the recession. Williamsville must always plan for the next state aid reduction and the other economic impact items affecting our revenue in order to protect our instructional programs.

See Note 2 Page 18

The District's long-range plan clearly states our position on using fund balance and reserves in our annual district budget. As stated in the referenced information, it protects the District from unforeseen issues. One such unforeseen issue is presented by the Office of the State Comptroller. The New York State Comptroller's March 2023 Report on the State Fiscal Year 2023-24 Executive Budget states that *"DOB projects shortfalls in revenues and increases in spending, particularly in Medicaid and school aid, over the financial plan period. As a result, projected outyear gaps have grown to $5.7 billion in SFY 2024-25, $9.0 billion in SFY 2025-26, and $7.5 billion in SFY 2026-27." In this same report, the Comptroller states the following "The Office of the State Comptroller has advanced a proposal to strengthen the New York State's statutory rainy day reserves. The plan, which provides a disciplined, consistent approach to building these reserves, would help to ensure that more robust reserves are built over time to be available during the next economic downtown or catastrophic event."*

See Note 6 Page 18

It is clear that the Comptroller is concerned about the future economic condition of the State of New York and they make a point to recommend that the State allocate surpluses to reserves. It is not the intention of the Williamsville Central School District to comment on the State's finances. Our goal is to continue to be fiscally responsible with our taxpayer funds. Williamsville has responsibly provided reserve and fund balance planning in each budget. The District has not exceeded the legal limit of 4% for unassigned fund balance in any year. Our reserves as stated in this report were properly established and funded. Our District has shared reserve information with our Board of Education and the Community in a transparent process which provides multiple reports and opportunity for public discussion on these important financial assets and budgetary appropriations. Our process and methodology for accessing and budgeting these items is clearly stated in our budget development process. The District reviews all revenue information each year and determines the amount of fund balance and reserves that are needed for the new budget. In the 2023-24 budget the District has reduced these allocations by $2,430,000. This was possible due to the full implementation of

Foundation aid. The District is always considering the impact our budget has on our taxpayers. In the 2023-24 budget the large increase we are receiving in foundation state aid has allowed us the opportunity to reduce the tax levy by $1,853,636 below our tax cap limit. Our District's finances are not only based on planning, they are based on action and these two revenue budget adjustments for the 2023-24 budget validate our purpose to balance budgets while considering taxpayer concerns.

Office of the State Comptroller's Recommendations

The District always reviews each of the Comptroller's recommendations with care and it will do so with each item in this report.

1. We will review our revenue and expense budget appropriations. Our fund balance and reserve appropriations will be adjusted based on short-term and long-term financial factors.
2. As stated, the District has reduced these amounts in the 2023-24 budget by $2,430,000. This was done prior to receiving this audit. This financial action shows the integrity of our district.
3. We will review our reserve fund balance policy against the applicable laws and make adjustments that are necessary to show that our district is transparent and complies with all funding requirements for fund balance and reserves.
4. The District is reviewing provisions provided to it by the Comptroller for inclusion in the adopted budget. The District has no issue with implementing these items as long as the funding levels will provide for the necessary fluctuations that may occur within a school year.

Sincerely,

Dr. Darren Brown-Hall
Superintendent of Schools

Mr. Thomas R. Maturski
Assistant Superintendent
for Finance and Management Services

Appendix B: OSC Comments on the District's Response

Note 1

Appropriated fund balance is the amount of fund balance that the Board and District officials should plan to use toward the next year's budget and to reduce the real property tax levy. In a structurally balanced budget, recurring revenues will be sufficient to cover recurring expenditures or appropriations. When estimated revenues do not cover estimated expenditures, officials may appropriate fund balance to help finance operations, which will result in an operating deficit and a reduction in fund balance.

Note 2

Although the COVID-19 pandemic created a degree of financial uncertainty, before the pandemic the Board and District officials consistently overestimated appropriations, appropriated fund balance that was not needed and unnecessarily increased the real property tax levy.

Note 3

The Board and District officials did not include the interfund transfers in the annual budgets or spending plans presented to and approved by District residents and taxpayers. Using unbudgeted interfund transfers to reduce surplus fund balance is not transparent to taxpayers.

Note 4

As indicated in Note 1, appropriated fund balance is the amount of fund balance that the Board and District officials should plan to use toward the next year's budget and to reduce the real property tax levy. Including appropriated fund balance in the annual budgets, which historically goes unneeded or unused, does not provide a transparent budget process.

Note 5

While fund balance can be appropriated in the budget to help finance operations, consistently doing so – instead of planning to use recurring revenue sources – is not recommended by the State Comptroller's Office because it can deplete surplus fund balance to levels that cannot cover contingencies and provide adequate cash flow.

Note 6

Surplus fund balance serves as a financial cushion for unexpected events and maintaining cash flow. To maintain fiscal stability, the Board and District officials must adopt realistic budgets that are structurally balanced. They also must ensure that the level of surplus fund balance maintained is sufficient to provide adequate cash flow and hedge against unanticipated expenditures and revenue shortfalls.

Note 7

As stated in the report, the District's reserves were reasonably funded. Our report does not take issue with the District's funding of its reserves. However, including the appropriation or use of reserve funds in the proposed budget, but not including the plan to add funds back to the reserves, is not transparent.

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 Board and District officials and reviewed relevant Board meeting minutes and District policies to gain an understanding of the District's financial management policies, procedures and budgeting practices.
- We reviewed the general fund budgets from 2018-19 through 2021-22 to determine whether they were reasonable and structurally balanced, by comparing adopted budgets with actual results of operations (excluding interfund transfers) and analyzed significant budget-to-actual variances.
- We reviewed and calculated surplus fund balance as a percentage of the next year's appropriations for 2018-19 through 2021-22 to assess whether the District complied with statute.
- We reviewed the adopted 2022-23 general fund budget to determine whether it had budgeting practices similar to previous years.
- We recalculated surplus fund balance as a percentage of the next year's appropriations after adding back the unused appropriated fund balance.
- We reviewed reserve fund activity from 2018-19 through 2021-22 and reserve fund balances as of June 30, 2022 to assess whether they were established properly, used appropriately and funded reasonably.
- We reviewed the corrective action plan that the District submitted in response to our 2016 audit report to determine whether the District took appropriate corrective action.

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.

The Board has the responsibility to initiate corrective action. 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-a (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 and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The CAP should be posted on the District's website for public review.

Appendix D: Resources and Services

Regional Office Directory
www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas
www.osc.state.ny.us/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems
www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management
www.osc.state.ny.us/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans
www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders
www.osc.state.ny.us/files/local-government/publications/pdf/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/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers
www.osc.state.ny.us/local-government/publications

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics
www.osc.state.ny.us/local-government/academy

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