



Bradford Central School District Financial Management

Report of Examination

Period Covered:

July 1, 2012 – April 15, 2016

2016M-253



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 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 Bradford Central School District, entitled Financial Management. 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 Bradford Central School District (District) is located in the Towns of Bath, Bradford, Urbana and Wayne in Steuben County and the Towns of Orange and Tyrone in Schuyler 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's Shared School Business Official is contracted through the Greater Southern Tier Board of Cooperative Educational Services (BOCES). The Business Official, Superintendent and Board are responsible for preparing the annual operating budget.

The District operates one school with approximately 275 students and 70 full-time employees. The District's general fund appropriations for the 2015-16 fiscal year were approximately \$8.8 million, which were funded primarily with State aid and real property taxes.

Objective

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

- Did the Board properly manage District finances by ensuring budgets were realistic and fund balance levels were reasonable?

Scope and Methodology

We examined the District's financial management practices for the period July 1, 2012 through April 15, 2016.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix 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 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.

Financial Management

The Board, Superintendent and Business Official are responsible for accurate and effective financial planning and management. This responsibility includes adopting annual budgets that contain realistic estimates of expenditures and the resources available to fund them and for ensuring that fund balance does not exceed the amount allowed by law. Fund balance represents the cumulative residual resources from prior fiscal years that can, and in some cases must, be used to lower property taxes for the subsequent fiscal year. A school district may retain a portion of fund balance, referred to as unrestricted fund balance, but must do so within the legal limit established by the New York State Real Property Tax Law (RPTL).¹ The portion of fund balance used to reduce the property tax levy is referred to as appropriated fund balance.

The Board and District officials have not adopted realistic budgets or effectively managed fund balance and have allowed unrestricted fund balance to exceed the statutory limit of 4 percent for the past three fiscal years by amounts ranging from \$350,000 to \$940,000 or 3.9 to 10.7 percentage points. Although District officials appropriated an average of \$430,000² of fund balance each year to help finance the subsequent year's budget, the amount appropriated was not used because the Board and District officials overestimated appropriations by an average of \$870,000 or 10 percent each year.

When unused appropriated fund balance is added back, unrestricted fund balance exceeded the statutory limit by amounts ranging from \$1.4 million to \$1.9 million or 12.8 to 17.5 percentage points. Based on the 2015-16 and 2016-17 adopted budgets, these budgeting practices have continued. District officials also misclassified a portion of fund balance as non-spendable thereby improperly reducing unrestricted fund balance. Despite the significant amount of accumulated fund balance, the Board and District officials continued to raise the tax levy by an average of 2 percent each year or a total of \$350,000 over the last three years.

During fiscal years 2012-13 through 2014-15, unrestricted fund balance averaged approximately \$990,000 and exceeded the statutory limit by an average of \$640,000. The District appropriated an average of \$430,000 of fund balance annually to help finance budgeted appropriations. However, because District officials overestimated

¹ Real Property Tax Law limits the amount of unrestricted fund balance to no more than 4 percent of the subsequent year's budget.

² 2012-13 through 2014-15 budgets

expenditures, appropriated fund balance was not actually used to finance operations. The District's independent auditor also reported that unrestricted fund balance was in excess of the statutory limit. However, officials did not properly address this finding, as unrestricted fund balance has continued to increase.

When fund balance is appropriated as a funding source, it reduces the fund balance subject to the statutory limit, and the expectation is that there will be a planned operating deficit in the ensuing fiscal year equal to the amount of fund balance appropriated. Although District officials appropriated fund balance each year, none of it was used because they overestimated appropriations each year by an average of \$870,000 or 10 percent. The most significant differences were in BOCES services (\$315,000 or 34 percent) and employee benefits³ (\$270,000 or 19 percent).⁴ Because appropriations were overestimated, the District realized operating surpluses of \$350,000 in 2012-13, \$260,000 in 2013-14, \$390,000 in 2014-15 and will likely realize a \$300,000 operating surplus in 2015-16. As a result, total fund balance increased and unrestricted fund balance exceeded the 4 percent statutory limit by 3.9 to 10.7 percentage points.

Figure 1: Unrestricted Fund Balance at Year-End			
	2012-13	2013-14	2014-15
Beginning Fund Balance	\$1,580,000	\$1,930,000	\$2,190,000
Add: Operating Surplus	\$350,000	\$260,000	\$390,000
Ending Fund Balance	\$1,930,000	\$2,190,000	\$2,580,000
Less: Appropriated Fund Balance	\$330,000	\$630,000	\$470,000
Less: Non-Spendable Fund Balance	\$150,000	\$160,000	\$130,000
Less: Encumbrances	\$1,500	\$15,000	\$2,000
Less: Restricted Fund Balance (Reserves)	\$490,000	\$680,000	\$680,000
Unrestricted Fund Balance at Year-End	\$958,500	\$705,000	\$1,298,000
Ensuing Year's Appropriations	\$8,490,000	\$8,900,000	\$8,820,000
Unrestricted Fund Balance as Percentage of Ensuing Year's Appropriations	11.3%	7.9%	14.7%

The District's practice of annually 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 and a circumvention of the statutory limit imposed on the level of unrestricted fund balance. District officials also misclassified a portion of fund balance as non-

³ This amount includes retirement contributions, health insurance and employer social security contributions.

⁴ The differences totaled \$950,000 for BOCES expenditures and \$810,000 for employee benefits over the three-year period.

spendable. Non-spendable fund balance typically consists of assets considered non-spendable in the current period because of their form or because they must be maintained intact. Items in non-spendable fund balance typically include inventories, long-term portions of loans, financial assets held for resale and principal of endowments. As of June 30, 2015, the District classified \$130,000 as non-spendable fund balance. The balance represented cash in the general fund that had been temporarily advanced to the federal fund.⁵ However, this is not an appropriate classification because the advances will be repaid once grant funds are received and generally grant funds are received soon enough after year-end to be used to satisfy current liabilities. As such, the advance is an interfund receivable and should be considered a current asset and classified as unrestricted fund balance.

As shown in Figure 2, when unused appropriated fund balance and misclassified non-spendable fund balance is added back, the unrestricted fund balance actually exceeded the 4 percent statutory limit by amounts ranging from 12.8 to 17.5 percentage points.

Figure 2: Unused Fund Balance			
	2012-13	2013-14	2014-15
Unrestricted Fund Balance at Year-End	\$958,500	\$705,000	\$1,298,000
Add: Misclassified Non-Spendable Fund Balance	\$150,000	\$160,000	\$130,000
Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget	\$330,000	\$630,000	\$470,000
Recalculated Unrestricted Fund Balance at Year-End	\$1,438,500	\$1,495,000	\$1,898,000
Recalculated Unrestricted Fund Balance as a Percentage of Ensuing Year's Budget	16.9%	16.8%	21.5%

Based on our review of the 2015-16 adopted budget, we expect that the District will not use the \$470,000 of appropriated fund balance. Therefore, the recalculated fund balance will likely continue to exceed the statutory limit. We also reviewed the 2016-17 adopted budget and found that appropriations did not increase, but estimated State aid revenues increased by approximately \$140,000 or 3 percent. However, the Board again appropriated \$360,000 in fund balance to help finance operations in the 2016-17 budget even though it will likely not be needed.

Despite the District's operating surpluses and excessive fund balance, the Board and District officials have increased the tax levy by an

⁵ The amount was estimated using a five-year average of the amounts advanced to the federal fund.

average of 2 percent each year or a total of \$350,000 over the last three years.⁶ Budgeting practices that produce operating surpluses and accumulate fund balance in excess of the amount allowed by law result in real property tax levies that are greater than necessary to fund operations.

Recommendations

The Board and District officials should:

1. Ensure budgets include realistic appropriations based on actual needs and planned use of fund balance to avoid levying taxes at a level greater than needed.
2. Ensure that interfund loans are properly reported in the accounting records.
3. Ensure that unrestricted fund balance is in compliance with the statutory limit and develop a plan to use excess fund balance in a manner that benefits District residents. Such uses could include:
 - Funding one-time expenditures;
 - Funding needed reserves; and
 - Reducing District property taxes.

⁶ 2012-13 through 2014-15

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

BRADFORD CENTRAL SCHOOL DISTRICT

...Enter to learn, leave to succeed!

2820 State Route 226, Bradford, New York 14815

Phone: 607-583-4616 Fax: 607-583-4013

September 20, 2016

Mr. Jeffrey Mazula
Chief Examiner
295 Main Street Suite 1032
Buffalo, NY 14203-2510

Dear Mr. Mazula,

The purpose of this correspondence is to acknowledge that the Bradford Central School District has received a draft copy of the audit conducted by the New York State Comptroller's Office on the financial management of the District. We would like to thank the Comptroller's Office for its recommendations on the issues identified within this report.

The District's response to the recommendations listed within the report are outlined below.

Recommendations on the Financial Management of the District:

Recommendation #1:

Ensure budgets include realistic appropriations based on actual needs and planned use of the fund balance to avoid levying taxes at a level greater than needed.

District's Response:

The Board of Education and school administration will make every reasonable attempt to construct accurate budgets based upon the needs of the District. While this is a practice which has been followed in the past, we will continue to focus our efforts on building a budget that is reflective of our actual expenses. Please understand that many of our expenses continue to be unpredictable and fluctuate dramatically during the 18-month period of time in which we start constructing a budget, to the time when we are done incurring expenses for that budget.

Recommendation #2:

Ensure that interfund loans are properly reported in the accounting records.

District's Response:

The District will seek out legal and regulatory guidance to ensure interfund loans are properly reported for accounting purposes..

~Home of the Braves~

BRADFORD CENTRAL SCHOOL DISTRICT

....Enter to learn, leave to succeed!

2820 State Route 226, Bradford, New York 14815

Phone: 607-583-4616 Fax: 607-583-4013

Recommendation #3:

Ensure that unrestricted fund balance is in compliance with the statutory limit and develop a plan to use excess fund balance in a manner that benefits District residents.

District's Response:

The District acknowledges it is above the statutory threshold for unrestricted fund balance. The Board of Education and school administration will have a scheduled workshop to determine the most fiscally responsible way to reduce this figure. A close review of our current reserves will be conducted to determine if they are funded at an appropriate level, or if there is a need to establish other reserves which can be used in the future to help reduce potential tax levy increases.

The Bradford Central School District would like to thank the New York State Comptroller's Office for their high level of professionalism and the thorough work done while conducting their review of our District.

Yours in education,

John R. Marshall
Superintendent

~Home of the Braves~

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials and reviewed policies to gain an understanding of the District's financial management practices.
- We reviewed the last three years of financial data and budgets to analyze changes in fund balance and determine operating results. For the same period, we compared budgeted appropriations and estimated revenues with actual results of operations and evaluated budget differences in selected appropriation and revenue accounts.
- We reviewed the 2015-16 and 2016-17 budgets and compared them to the 2014-15 budget. Based upon these comparisons, we projected revenues and expenditure trends for the remainder of the 2015-16 fiscal year and operating results for 2016-17.
- We analyzed the appropriation of fund balance in the adopted budgets to determine if it was used as intended.
- We calculated unrestricted fund balance as a percentage of the ensuing year's budget. We included both appropriated fund balance and non-spendable fund balance in our calculation as the District has shown a pattern of not using appropriated fund balance and the portion of fund balance being reported as non-spendable was misclassified.
- We reviewed the District's tax levy from 2012-13 through 2015-16 and budget documents provided by District officials to support tax levy calculations.

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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