

# Brasher Falls Central School District

## Financial Condition

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OCTOBER 2019

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

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# Report Highlights

## Brasher Falls Central School District

### Audit Objective

Determine whether the Board and District officials effectively managed the District's financial condition.

### Key Findings

- The surplus fund balance in the general fund exceeded the 4 percent statutory limit for the past three fiscal years. As of June 30, 2018, the District's surplus fund balance was \$2.15 million, which was 4.9 percentage points or nearly \$1.2 million over the legal limit.
- During the past three fiscal years, the District appropriated fund balance and reserves that it did not use and generated operating surpluses totaling about \$5 million. The District also overestimated appropriations by an average of \$2.4 million each year or by 10.5 percent. During this time, total reserves increased by \$3.9 million.
- District officials have not developed a comprehensive multiyear financial plan.

### Key Recommendations

- Ensure the surplus fund balance complies with the statutory limit and use surplus funds to fund one-time expenditures or needed reserves, pay off debt and/or reduce property taxes.
- Develop a comprehensive multiyear financial plan.

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

### Background

The Brasher Falls Central School District (District) serves the Towns of Brasher, Hopkinton, Lawrence, Massena, Norfolk and Stockholm in St Lawrence County and the Towns of Bombay and Dickinson in Franklin County. The District is governed by an elected nine-member Board of Education (Board), which is responsible for the general management and control of the District's financial affairs.

The Superintendent of Schools is the chief executive officer and responsible for the District's day-to-day management, budget development and administration. The Business Manager is responsible for business activities.

#### Quick Facts

Employees	170
Enrollment	1,026
2018-19 Appropriations	\$24 million

### Audit Period

July 1, 2017 – January 31, 2019

We reviewed fund balance and budgeting trends back to July 1, 2015.

# Financial Condition Management

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## What Is Effective Financial Condition Management?

The board must maintain a reasonable level of fund balance, which is the difference between revenues and expenditures accumulated over time. Boards may retain a portion of fund balance for unexpected events and cash flow within statutory limits. New York State Real Property Tax Law<sup>1</sup> limits the amount of fund balance that a school district can retain to no more than 4 percent of the subsequent year's budget.

A board must adopt realistic and structurally balanced budgets, based on historical or other known trends. School districts may include appropriations of fund balance or reserves in the budget; in which case, the appropriated fund balance, appropriated reserves and recurring revenues should finance budgeted appropriations. When fund balance or reserves are appropriated, there is a planned operating deficit (expenditures exceeding revenues) which allows a district to use money accumulated in prior years to fund current operations and help ensure the real property tax levy is not greater than necessary.

School districts can legally set aside, or reserve, portions of fund balance to finance future costs for specific purposes (e.g., capital projects or retirement expenditures). A board should develop a written policy that states its rationale for establishing reserve funds, objectives for each reserve, maximum targeted funding levels and conditions under which reserves will be used or replenished to balance the desire to accumulate funds for future needs with the obligation to ensure the real property tax levy is not greater than necessary.

Multiyear financial planning enables district officials to identify revenue and expenditure trends, establish long-term priorities and goals, consider the impact of near-term budgeting decisions on future fiscal years, and assess the merits of alternative approaches (such as using surplus funds or establishing and using reserves) to finance operations. Any multiyear financial plan should be periodically reviewed and updated to provide a reliable framework for preparing budgets and ensure that information used to guide decisions is current and accurate.

## Surplus Fund Balance Exceeded the Statutory Limit

The District's surplus fund balance in the general fund exceeded the 4 percent statutory limit from 2015-16 through 2017-18. As of June 30, 2018, the District's surplus fund balance was \$2.15 million, which was 4.9 percentage points, or nearly \$1.2 million over the statutory limit.

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<sup>1</sup> New York State Real Property Tax Law Section 1318

**FIGURE 1**

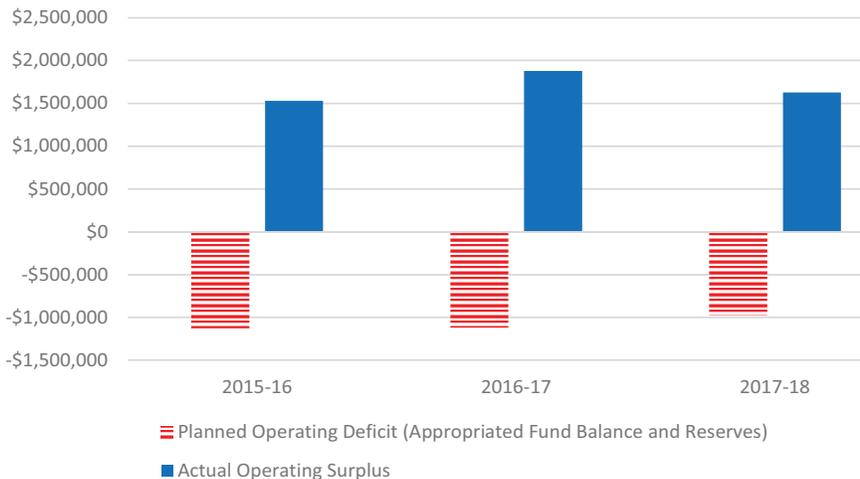
**General Fund Surplus Fund Balance**



In addition, the District appropriated fund balance and reserves that it did not use. The Board appropriated fund balance and reserves totaling about \$1.1 million each year for 2015-16 and 2016-17 and \$976,000 for 2017-18.<sup>2</sup> However, instead of generating planned operating deficits caused by appropriating fund balance and reserves, the District generated operating surpluses that averaged \$1.7 million each year and totaled about \$5 million for the three years combined.

**FIGURE 2**

**Planned Operating Deficit vs. Actual Operating Results**



<sup>2</sup> For 2015-16, \$650,000 in fund balance and \$476,000 in reserves; for 2016-17, \$650,000 in fund balance and \$471,000 in reserves; and for 2017-18, \$500,000 in fund balance and \$475,835 in reserves.

As a result, the District’s total fund balance increased \$5 million including about \$3.9 million in reserve funds during this 3-year period.

We compared budgeted revenues and appropriations with actual results of operations from 2015-16 through 2017-18 and found that revenue estimates were reasonable. However, District officials overestimated appropriations by an average of \$2.4 million each year, spending about \$7.1 million less than budgeted over the three-year period (a 10.5 percent average budget variance).

**Figure 3: General Fund Budget-to-Actual Appropriations**

	2015-16	2016-17	2017-18	Total
<b>Budgeted Appropriations</b>	\$21,855,723	\$22,761,284	\$23,341,047	\$67,958,054
<b>Actual Expenditures</b>	\$19,518,946	\$20,259,328	\$21,056,894	\$60,835,168
<b>Amount Under Budget</b>	\$2,336,777	\$2,501,956	\$2,284,153	\$7,122,886
<b>Percentage Under Budget</b>	10.7%	11.0%	9.8%	10.5%

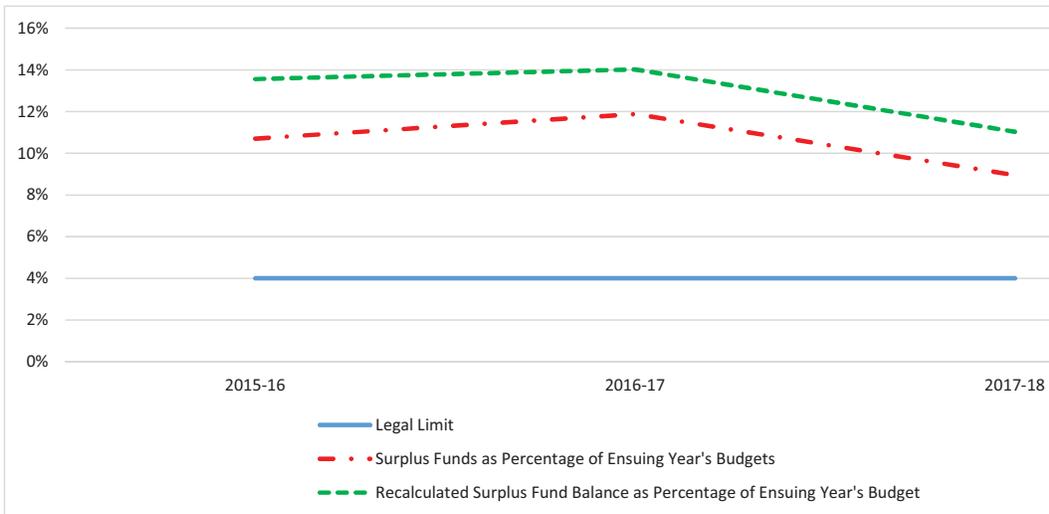
These overestimations were spread throughout the budget. Some of the more significant from 2015-16 through 2017-18 were:

- Special education - \$1.6 million or 22 percent (an average of \$535,000 each year)
- Health insurance - \$1.45 million or 10 percent (an average of \$482,000 each year)
- Utilities - \$732,000 or 26 percent (an average of \$244,000 each year)
- Diesel fuel - \$274,000 or 7 percent (an average of \$91,000 each year).

Recalculated Surplus Fund Balance – The practice of appropriating fund balance each year that was not needed was, in effect, a reservation of fund balance that is not provided for by statute and that circumvents the statutory limit. Similar to the prior years, District officials are projecting another operating surplus of \$1.7 million for 2018-19 and they do not plan to use any of the \$500,000 of appropriated fund balance or \$488,610 of appropriated reserves budgeted for 2018-19. When unused appropriated fund balance is added back to the reported surplus fund balance, the recalculated surplus fund balance ranged from 14 percent to 11 percent of the next year’s appropriations from 2015-16 through 2017-18.

FIGURE 4

### Surplus Funds Percentage



From the beginning of 2015-16 to the end of 2017-18, the District's total fund balance has increased \$5 million, or 142 percent (from \$3.5 million to \$8.5 million). The Board added about \$3.9 million to its reserve funds during this 3-year period. In June 2017, the Board adopted a Reserves Plan that includes targeted funding levels for each reserve fund, maximum targeted funding levels and conditions under which reserves will be used or replenished for the next five years. This plan is updated and reviewed by the Board each year in June.

District officials told us they have been working to rebuild their programs after years of budget cuts. From 2010-11 through 2014-15, District officials eliminated 29 positions from the budget. As of 2018-19, the District has added back 17 positions. Officials told us they have maintained fund balance in excess of the statutory limit to avoid having to make similar budget cuts in the event of a future economic downturn.

It is important for District officials to balance the desire to accumulate funds for future needs with the obligation to ensure the real property tax levy is not greater than necessary. From 2015-16 through 2017-18, District officials incrementally increased the tax levy, despite exceeding the statutory fund balance limit and having sufficient resources to fund ongoing operations. If the Board retained the same tax levy as in 2014-15, taxpayers might have realized \$824,586 in cumulative tax savings.

**Figure 5: Real Property Tax Levies**

	2015-16	2016-17	2017-18	2018-19
<b>Real Property Tax Levy</b>	\$4,888,459	\$4,952,366	\$5,015,417	\$5,181,780
<b>Dollar Increase From Prior Year</b>	\$85,100	\$63,907	\$63,051	\$166,363
<b>Percentage Increase From Prior Year</b>	2%	1%	1%	3%
<b>Cumulative Savings<sup>a</sup></b>	\$85,100	\$234,107	\$446,165	\$824,586

a The calculation is based off the 2014-15 tax levy of \$4,803,359 and is the cumulative total of tax increases of each year as compared to the base year of 2014-15.

### **Officials Did Not Develop a Comprehensive Written Multiyear Financial Plan**

Although the District has adopted a 5-year Reserves Plan, District officials told us they currently do not have a comprehensive multiyear financial plan. The formal multiyear financial plan would help District officials address the level of surplus fund balance and plan for the funding and use of reserve funds. As District officials develop a plan, they should review historical expenditure trends and develop realistic projections of future costs. A multiyear plan will also provide more transparency to District residents on the Board’s strategy for addressing the level of surplus fund balance.

### **What Do We Recommend?**

The Board and District officials should:

1. Ensure the amount of surplus fund balance complies with the statutory limit and use the surplus funds as a financing source for:
  - Funding one-time expenditures.
  - Funding needed reserves.
  - Paying off debt.
  - Reducing District property taxes.
2. Develop a comprehensive written multiyear financial plan to provide a framework for future budgets and guide the District’s management of financial condition. The plan should be periodically reviewed and updated as appropriate.

The Board should:

3. Adopt annual budgets that contain realistic estimates for appropriations based on historical or other known factors.

# Appendix A: Response From District Officials

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## Brasher Falls Central School District St. Lawrence Central School

P.O. Box 307  
Brasher Falls, New York 13613  
(315) 389-5131  
(315) 389-5245 Fax

October 10, 2019

Dear Ms. Wilcox,

The Brasher Falls Central School District is in receipt of the draft Financial Condition Report of Examination 2019M-158 performed by your office. On behalf of the Board of Education and the District Administration, I would like to thank the local Office of the State Comptroller for their professionalism and courtesy while completing this audit.

The District agrees with the findings of the audit and recognizes that the financial data is correct. The District has carried an unexpended surplus balance above the 4% limit and has used this money to replenish reserves. This was completed with a conservative approach to budgeting and a desire to assure the well-being of the school and academic program. However, what the numbers do not demonstrate is the context of events that have led to this action.

Brasher Falls Central School is a high needs district with approximately 1000 students. Our enrollment has remained approximately even over the past decade. Although our enrollment has remained constant, our financial condition and the needs of our students has not. The numbers of economically disadvantaged students and students with disabilities have increased. Enrollment has decreased in many local schools over the past decade but this isn't the case at Brasher Falls Central. However, the price to educate our growing population of economically disadvantaged students and students with disabilities has increased.

State aid accounts for approximately 74% of our revenues. This means we are highly dependent upon New York State to help support our programs. Earlier this decade, the District was severely dismantled with the implementation of the Gap Elimination Adjustment. Between 2010 - 2015, the District was required to cut 29 positions in order to survive financially. These cuts resulted in dismantling our educational program. By 2015, the District could barely offer students the classes necessary to attain a Regents diploma. Upper level students had multiple unnecessary study halls in their daily schedule or would leave after half day simply because we couldn't offer more classes. When we should have been preparing students for the jobs of the future, we were just trying to survive. By 2015 the passing rates on our NYS Regents examinations had dropped to 59%. We were a failing school.

During this time period, we used reserves and reduced fund balance to close the financial budget gap. Fund balance was reduced by 14% and 9% in consecutive years. Our reserves fell to dangerous levels and our unappropriated fund balance was reduced to 2%. Our foundation aid

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increases were an average of 1.5% over this time period including a 0% increase. For two years, from 2013-15, we were on the NYS Fiscal Stress list.

Since the elimination of the GEA, our District has seen increased levels of foundation aid funding. We remain underfunded by approximately 2 million dollars per year compared to a fully funded foundation formula. Through conservative budgeting with recognition of our responsibility to provide a viable education program for our students now and in the future, the District has begun to rebuild its educational program and financial livelihood. Twenty-one of the 29 positions cut have been re-established and students are now receiving a solid education. Our Regents passing scores have risen to 82% passing and our 3-8 ELA and Math assessment scores have seen double digit increases.

The District recognizes the responsibility it has to the community and taxpayers. Over the past 4 years, the District tax levy increase has been at and below the allowable tax cap. Although it is accurate that the District had the unappropriated fund balance necessary to maintain a level tax levy, the security of our educational program and financial health took precedence.

We continue to struggle with the uncertainty of our revenue funding. In recent years, aid has increased but we have also been threatened with proposals such as a cap on expense based aid and foundation formula changes. Not to mention potential Federal reduction in Title 1 funding. Although the NYS tax cap doesn't play a largely significant role in our budget, it does in other parts of the state. This affects us when additional foundation aid shares are diverted to other parts of our state.

We attempt to analyze revenue and expenditure trends in order to predict what our budgetary needs will be. We use short term and long-term projections as best we can while attempting to judge the financial and political NYS climate. This tends to make our budgeting very cautious and conservative.

Once again, the District thanks the NYS Comptroller's Office for the professionalism and assistance given during this audit process. The District will submit a Corrective Action Plan to achieve compliance with the stated recommendations.

Sincerely,

Robert Stewart  
Superintendent of Schools

## 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 the Board meeting minutes, resolutions and budget policies to gain an understanding of the budget process and whether the District had developed multiyear reserve, financial or capital plans.
- We reviewed and analyzed the District's financial records and reports for the general fund including annual general fund budgets, audited financial statements, budget status reports and general ledgers.
- We analyzed the trend in total fund balance (restricted, assigned and unassigned) in the general fund for 2015-16 through 2017-18. We assessed fund balance levels and compared surplus fund balance with the next years' budgeted appropriations to determine whether the District was within the statutory limit. We also assessed compliance with the statutory limit in the event unused appropriated fund balance is added back to the reported surplus fund balance.
- We compared the general fund's total estimated revenues and budgeted appropriations with actual revenues and expenditures for 2015-16 through 2017-18 to determine whether budgets were reasonable. We followed up with District officials on significant budget variances.

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 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. We encourage the Board to make the CAP available for public review in the 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)

### **Research Reports/Publications** – Reports on major policy issues facing local governments and State policy-makers

[www.osc.state.ny.us/localgov/researchpubs/index.htm](http://www.osc.state.ny.us/localgov/researchpubs/index.htm)

### **Training** – Resources for local government officials on in-person and online training opportunities on a wide range of topics

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Division of Local Government and School Accountability  
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**SYRACUSE REGIONAL OFFICE** – Rebecca Wilcox, Chief Examiner

State Office Building, Room 409 • 333 E. Washington Street • Syracuse, New York 13202-1428

Tel (315) 428-4192 • Fax (315) 426-2119 • Email: [Muni-Syracuse@osc.ny.gov](mailto:Muni-Syracuse@osc.ny.gov)

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