

# Bemus Point Central School District

## Financial Management

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**FEBRUARY 2020**

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

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# Report Highlights

## Bemus Point Central School District

### Audit Objective

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

### Key Findings

- The Board overestimated appropriations by a total of \$3.1 million from 2016-17 through 2018-19 and annually appropriated an average of \$400,000 of fund balance that was not used to finance operations.
- The District improperly restricted more than \$260,000 in its trust and agency fund.
- As of June 30, 2019, surplus fund balance totaled \$708,000 and was 4.5 percent of 2019-20 appropriations, exceeding the statutory limit by approximately \$74,000.

### Key Recommendations

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

District officials generally agreed with our findings and indicated they would take corrective action. Appendix B includes our comments on issues raised in the District's response.

### Background

The Bemus Point Central School District (District) serves the Towns of Ellery, Ellicott and Gerry in Chautauqua County.

The District is governed by an elected seven-member Board of Education (Board). The Superintendent of Schools (Superintendent) is the chief executive officer and is responsible for day-to-day management. The Board, Superintendent and Business Manager are responsible for developing the annual budget. The Business Manager is also responsible for the administration and supervision of financial activities.

#### Quick Facts

Enrollment	690
Employees	135
2019-20 General Fund Budget	\$15.8 million

### Audit Period

July 1, 2016 – September 12, 2019

# Financial Management

## What is Effective Financial Management?

To properly manage financial condition, a board should adopt accurate and structurally balanced budgets based on historical or known trends in which recurring revenues finance recurring expenditures. In preparing the budget, a board must estimate the amounts a school district will spend and receive, the amount of fund balance that may be available at year-end to use towards the next year's budget and the expected real property tax levy. Accurate estimates help ensure that the tax levy is not greater than necessary.

A board is permitted to retain a specified amount of fund balance for cash flow needs or unexpected expenditures. Fund balance is the difference between revenues and expenditures accumulated over time. New York State Real Property Tax Law currently limits the amount of surplus fund balance that a school district can retain to no more than 4 percent of the next year's budget.<sup>1</sup> Any surplus fund balance over this percentage must be used to reduce the upcoming fiscal year's tax levy or to fund needed reserves.

## The Board Overestimated Appropriations

We compared 2016-17 through 2018-19 budgeted appropriations and estimated revenues with actual operating results and found that, while revenue variances were generally reasonable<sup>2</sup> (overestimated by an average of less than two percent), appropriations were overestimated by \$3.1 million in total or an annual average of approximately \$1 million (7 percent).

**Figure 1: Overestimated Appropriations**

	2016-17	2017-18	2018-19	Totals
<b>Budgeted Appropriations<sup>a</sup></b>	\$14,142,000	\$15,262,000	\$15,700,000	\$45,104,000
<b>Actual Expenditures</b>	\$13,170,000	\$14,152,000	\$14,638,000	\$41,960,000
<b>Overestimated Appropriations</b>	\$972,000	\$1,110,000	\$1,062,000	\$3,144,000
<b>Percentage Overestimated<sup>b</sup></b>	7%	8%	7%	7%

a Includes prior year encumbrances  
b Overestimated appropriations divided by actual expenditures

The most significant overestimated appropriations were for personal services \$1.4 million (annual average of \$451,000 or 6 percent) and employee benefits \$1.3 million (annual average of \$426,000 or 13 percent). The Business Manager told us that they annually overestimate certain appropriations, including these,

1 New York State Real Property Tax Law, Section 1318. Surplus fund balance is defined as unrestricted fund balance minus appropriated fund balance and encumbrances included in committed and assigned fund balance. Refer to our accounting bulletin at <https://osc.state.ny.us/localgov/pubs/releases/gasb54.pdf>.

2 Revenues were overestimated by a total of \$506,000 or an annual average of approximately \$169,000 from 2016-17 through 2018-19.

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to provide flexibility in the budget in the event expenditures are higher than anticipated or if revenues are below expectations. These budgeting practices appear to have continued in the 2019-20 budget which may result in the District experiencing an operating surplus similar to the previous three years.

Because the Board overestimated appropriations, it appeared that more revenue and financing sources (fund balance) were needed to maintain a structurally balanced budget and address budgeted operating deficits (more expenditures than revenues), despite historical trend data indicating otherwise.

### **The Board Appropriated More Fund Balance Than Needed and Certain Funds Were Improperly Restricted**

The Board annually appropriated fund balance averaging \$400,000 as a financing source, which should have resulted in annual operating deficits equal to the amounts of funds appropriated. However, because officials overestimated appropriations each year, the District realized annual operating surpluses and fund balance increased by more than \$600,000 or 32 percent from 2016-17 through 2018-19.

Annually appropriating fund balance that is not needed to finance operations is, in effect, a reservation of fund balance not provided for by statute and a circumvention of the statutory limit imposed on the surplus fund balance level.

Additionally, the District improperly restricted approximately \$260,000 for other post-employment benefits (OPEB) in its agency fund as of June 30, 2019. OPEB are employee benefits other than pensions – primarily health care benefits received after employment ends. However, there is no statutory authority for a school district to establish a reserve for OPEB because these benefits are not based on employees' earned and unused leave time.<sup>3</sup>

During our previous audit, we informed District officials that there was no statutory authority to restrict funds for OPEB. At that time the District had restricted \$445,000 in the general fund for OPEB.<sup>4</sup> We recommended that these funds be returned to the general fund and be included in surplus fund balance. However, officials instead began accounting for, reporting and using these funds as a reserve in the trust and agency fund.

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<sup>3</sup> An employee benefit accrued liability reserve is authorized by New York State General Municipal Law, Section 6-p to reserve money to pay employee benefits based on accrued leave time and is paid to employees when they leave district employment.

<sup>4</sup> Refer to our prior audit report, *Bemus Point Central School District – Reserve Funds (2014M-281)* released in December 2014.

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

	2016-17	2017-18	2018-19
<b>Beginning Total Fund Balance</b>	\$1,963,000	\$2,153,000	\$2,206,000
<b>Add: Operating Surplus</b>	\$190,000	\$53,000	\$408,000
<b>Less: Unbudgeted Transfers</b>	\$0	\$0	\$23,000
<b>Ending Total Fund Balance</b>	\$2,153,000	\$2,206,000	\$2,591,000
<b>Less: Restricted Fund Balance (Reserves)</b>	\$891,000	\$892,000	\$995,000
<b>Less: Appropriated Fund Balance<sup>a</sup></b>	\$400,000	\$400,000	\$700,000
<b>Less: Encumbrances</b>	\$237,000	\$170,000	\$183,000
<b>Less: Prepaid Assets</b>	\$0	\$0	\$5,000
<b>Surplus Fund Balance</b>	\$625,000	\$744,000	\$708,000
<b>Next Year's Budget</b>	\$15,025,000	\$15,469,000	\$15,842,000
<b>Surplus Fund Balance as a Percentage of Next Year's Budget</b>	4.2%	4.8%	4.5%
<b>Amount Exceeding the Legal Limit</b>	\$24,000	\$125,000	\$74,000

<sup>a</sup> The District appropriated \$400,000 of fund balance in 2015-16 for 2016-17.

For perspective, when we added the unused appropriated fund balance amounts and the funds improperly restricted for OPEB back to surplus fund balance, the District exceeded the limit each year by nearly 5 to 7 percentage points.

**Figure 3: Recalculated Surplus Fund Balance at Year-End**

	2016-17	2017-18	2018-19
<b>Surplus Fund Balance</b>	\$625,000	\$744,000	\$708,000
<b>Add: Unused Appropriated Fund Balance</b>	\$400,000	\$400,000	\$700,000 <sup>a</sup>
<b>Add: Improperly Restricted Funds</b>	\$257,000	\$365,000	\$261,000
<b>Recalculated Surplus Fund Balance</b>	\$1,282,000	\$1,509,000	\$1,669,000
<b>Next Year's Budget</b>	\$15,025,000	\$15,469,000	\$15,842,000
<b>Recalculated Surplus Fund Balance as a Percentage of Next Year's Budget</b>	8.5%	9.8%	10.5%
<b>Amount Exceeding the Legal Limit</b>	\$681,000	\$889,000	\$1,036,000

<sup>a</sup> The District increased this amount intending to transfer an additional \$300,000 to the capital projects fund.

We compared the 2019-20 budget to past budgeting practices and, with the exception of the anticipated transfer to the capital projects fund, found no significant changes in these practices. Based on our comparison, we estimate that the District may again experience an operating surplus in 2019-20 and therefore will not need the appropriated fund balance.

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Budgeting practices which produce operating surpluses and maintain fund balances in excess of the amounts allowed by law result in real property tax levies that are greater than necessary to fund operations. The Board and District officials increased the real property tax levy by approximately \$300,000 (4 percent) over the past three years. Although there was no tax levy increase for 2019-20, District officials may have missed opportunities to use surplus fund balance for other purposes and/or reduce taxes.

### **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 fund operations.
2. Return the money improperly restricted for OPEB to the general fund.
3. Develop a plan to reduce surplus fund balance to comply with the statutory limit. Surplus funds can be used for:
  - Reducing real property taxes
  - Funding one-time expenditures
  - Funding needed reserves
  - Paying off debt

# Appendix A: Response From District Officials

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ADMINISTRATIVE OFFICES

## BEMUS POINT CENTRAL SCHOOL DISTRICT

P.O. BOX 468

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TELEPHONE 716-386-2375

MICHAEL E. MANSFIELD  
Superintendent of Schools

January 29, 2020

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

Dear Mr. Mazula:

Bemus Point Central School District acknowledges receipt of the draft Report of Examination 2019M-216 concerning Financial Management of the District for the period of July 1, 2015 through September 12, 2019.

Please note that the Board of Education has had the opportunity to review the draft report. We submit this letter as both our response to the draft audit and our corrective action plan.

### **Requested Modification - General Order of Data:**

1. The Board is concerned with the overall order by which the Comptroller has chosen to present the data. It is our interpretation that leading with data depicting the District, "overestimated appropriations by \$3.1 million over the three year period examined" without detailing that the revenue shortfall for the same period totaled \$2.5 million in the same area of the report will create unnecessary questions and concerns without premise. This approach is very misleading and far from a transparent perspective of the financial condition of our District. We addressed our concern regarding this issue during our exit conference and request this approach be modified accordingly.
2. The District acknowledges the current surplus fund balance percentage of 4.5% exceeds the New York State Real Property Tax Law limit of 4%, however, we feel it should be noted that this is a reduction from the prior years percentage of 4.8% showing the Districts continued efforts to comply with the law (Figure 2 of the report). As acknowledged by the examiner during our exit conference, the conservative budgeting practices of the District have in fact resulted in modest reserves and a surplus fund balance slightly above the legal limit. Looking at a typical long range plan of five years, the Districts budgeting practices have resulted in an increase of just over \$160,000, or an average of \$32,000 per year, in Total Fund Balance. We request these facts be presented accordingly.

See  
Note 1  
Page 8

See  
Note 2  
Page 8

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**Response to Key Findings and Recommendations:**

**Overestimated Appropriations-**

- While the Board feels that presenting conservative budgets is the best approach to ensure long term financial stability, we will present better estimates of both expenses and revenue to limit operating surplus, and address any fund balance which exceeds the limit allowed by law.

**Unused Appropriated Fund Balance-**

- It is an established practice among Districts to use Appropriated Fund Balance and the corresponding appropriation to protect themselves from unforeseen emergencies. An example for our District was the loss of our water well in 2013 where the majority of Appropriated Fund Balance was used. This emergency had a negative impact on the continuity of our operations and resulted in the Comptroller designating our District as "Susceptible to Fiscal Stress". This budgeting practice protects our residents from increased taxes for something that may not happen. The District will budget planned use of fund balance as needed to comply with surplus limits.

**Improperly Restricted funds in trust and agency-**

- The District acknowledges these findings and will no longer use this method to account for any post employment benefits. The current balance of this account is \$175,000 and Board anticipates these funds to be depleted no later than June 2022.

**Excess Surplus Fund Balance-**

- The District acknowledges this finding and will address any overage in future budgets to comply with legal limits.

Sincerely,

Barry L. Swanson  
Board President  
Bemus Point CSD

## Appendix B: OSC Comments on the District's Response

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### Note 1

As indicated in footnote 2 of our report, revenues were overestimated by \$506,000 over the three-year period not by \$2.5 million. Officials calculated their revenue shortfall amount by including appropriated fund balance and appropriated reserves which are financing sources but not revenues. Moreover, the Board consistently overestimated appropriations and generated operating surpluses and therefore these appropriated funds were not needed as financing sources. Consequently, we have not modified the report based on this request.

### Note 2

The scope period of the audit is noted in the report. Consequently, we have not modified the report to include five years of financial information as District officials requested.

## Appendix C: 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<sup>5</sup> and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials and reviewed Board minutes and policies to gain an understanding of financial management and budgeting practices.
- We reviewed the adopted general fund budgets from 2016-17 through 2018-19 to determine whether they were reasonable and structurally balanced by comparing adopted budgets with actual results of operations.
- We reviewed the adopted 2019-20 general fund budget to determine whether similar budgeting patterns existed in comparison with the 2016-17 through 2018-19 adopted budgets.
- We calculated surplus fund balance as a percentage of the next year's appropriations for 2016-17, 2017-18 and 2018-19 to assess District compliance with statute.
- We analyzed the general fund and trust and agency fund financial records from 2016-17 through 2018-19 to evaluate any factors contributing to fluctuations in fund balance and to determine whether there were any improperly restricted funds.
- We recalculated surplus fund balance as a percentage of the next year's appropriations after adding back unused appropriated fund balance and funds improperly restricted for OPEB for 2016-17, 2017-18 and 2018-19.
- We analyzed the tax levy between 2016-17 and 2019-20 to determine whether there were any changes.

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.

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

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<sup>5</sup> We also issued a separate audit report, *Bemus Point Central School District – Capital Projects (2019M-212)*.

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refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The CAP should be posted to the District's website for public review.

## Appendix D: 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#lgmg](http://www.osc.state.ny.us/localgov/pubs/listacctg.htm#lgmg)

### **Planning and Budgeting Guides** – Resources for developing multiyear financial, capital, strategic and other plans

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

### **Protecting Sensitive Data and Other Local Government Assets** – A non-technical cybersecurity guide for local government leaders

[www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf](http://www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf)

### **Required Reporting** – Information and resources for reports and forms that are filed with the Office of the State Comptroller

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

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