Office of the New York State Comptroller

Division of Local Government & School Accountability

Brookfield Central School District

Financial Condition

Report of Examination

Period Covered:

July 1, 2012 — October 31, 2013

2014M-48

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

April 2014

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage district resources 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 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 costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Brookfield Central School District, entitled Financial Condition. 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 General Municipal Law.

This audit's results and recommendations are resources for school 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 Brookfield Central School District (District) is located in the Towns of Brookfield, Hamilton and Madison in Madison County, the Towns of Bridgewater and Sangerfield in Oneida County and the Town of Columbus in Chenango County. The District is governed by a five-member Board of Education (Board) which is responsible for the general management and control of the District's financial and educational affairs. The Superintendent is the chief executive officer and is responsible, along with other administrative staff, for day-to-day District management under the Board's direction. The Business Manager oversees the daily financial operations of the Business Office and is appointed annually by the Board as the District's Treasurer.[1]

The District operates one school which has about 230 students. The District's general-fund budgeted appropriations for the 2013-14 fiscal year are $5.9 million, funded primarily with State aid and real property taxes.

Objective

The objective of our audit was to review the District's financial condition. Our audit addressed the following related question:

- Do the Board and District management effectively manage the District's financial condition?

Scope and Methodology

We examined the District's financial condition for the period of July 1, 2012 through October 31, 2013. We extended our scope back to 2010-11 to review year-end fund balances for trend analysis and back to 2003-04 to review the debt service fund.

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 is included in Appendix C 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 disagreed with one of our recommendations. Except as specified in Appendix A, District officials generally agreed with our findings and indicated that they have taken or plan to take corrective action.

[1] In November 2013, the Business Manager/Treasurer was appointed Superintendent.

Appendix B contains our comment on an issue raised in the District's response.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the 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 Condition

Financial condition may be defined as a school district's ability to balance recurring expenditure needs with recurring revenue sources, while providing desired services on a continuing basis. A district in good financial condition generally maintains adequate service levels during fiscal downturns and develops resources to meet future needs. Conversely, a district in fiscal stress usually struggles to balance its budget, has limited resources to finance future needs and has minimal cash available to pay current liabilities as they become due. The Board is responsible for making sound financial decisions that are in the best interests of the District, the students it serves and the taxpayers who fund the District's programs and operations. Sound budgeting practices based on accurate estimates, combined with prudent fund balance management, ensure that sufficient funding will be available to sustain operations, address unexpected occurrences and satisfy long-term obligations or future expenditures. Further, District officials should develop a multiyear financial plan that projects future revenues and expenditures and prepares for the fiscal challenges of future years.

The Board and District management are not effectively managing the District's financial condition, and its reported financial position is declining. While the District's reported fund balance shows a deficit, most of its fund balance appropriations are in fact not being used. District officials appropriated fund balance as a funding source for the past three years in amounts that were unnecessary and exceeded the fund balance actually available. As a result, at the end of 2012-13 fiscal year, the District's reported unassigned fund balance had declined to a deficit of $369,347. The District could improve its reported financial position by not appropriating unnecessary fund balance and, further, by appropriately transferring retired debt proceeds to the general fund. Additionally, the Board does not effectively monitor the budget throughout the year, and the Business Manager/Treasurer did not provide the Board with budget status reports or budget transfer reports.

Budgeting and the Use of Fund Balance

A key measure of the District's financial condition is its level of fund balance, which is the difference between revenues and expenditures accumulated over time. When maintained at reasonable levels, fund balance provides cash flow and can be used to help finance the next fiscal year's operations. The restricted portion of fund balance represents the amount that the District may use only for specific purposes. The unrestricted portion of fund balance is the amount that may be appropriated to fund programs in the next year's budget.

In preparing the general fund budget, the Board is responsible for establishing appropriations at a level sufficient to finance planned services, estimating what the District will spend and what it will receive in State aid, determining how much fund balance (if any) should be appropriated in the budget and balancing the budget by determining what the expected tax levy will be. District officials should develop a reasonable estimate of the unrestricted fund balance that will be available at fiscal year end so that the Board can determine the proper amount of fund balance to appropriate as a financing source to offset the ensuing year's tax levy while also retaining a sufficient amount of unassigned fund balance[2] for future use. Accurate estimates help ensure that the levy of real property taxes is no greater than necessary and that sufficient unassigned fund balance is available as a financial cushion for emergencies and cash flow.

The Board appropriated fund balance each year for the subsequent year's expenditures in amounts that greatly exceeded the unrestricted funds actually available. As a result, the unassigned fund balance was reduced to a deficit of $369,347 at the end of 2012-13.

Table 1: Fund Balance – General Fund

	2010-11	2011-12	2012-13
Total Fund Balance	$875,263	$662,065	$573,805
Less: Nonspendable [a]	$0	$49,772	$52,388
Less: Restricted	$198,560	$198,560	$198,560
Unrestricted Fund Balance	**$676,703**	**$413,733**	**$322,857**
Less: Assigned, Unappropriated (Encumbrances)	$10,355	$11,402	$0
Less: Assigned, Appropriated for the Next Fiscal Year	$826,933	$532,612	$692,204
Unassigned Fund Balance at Year End	**($160,585)**	**($130,281)**	**($369,347)**

[a] Consisting of prepaid expenses

However, the District did not use most of the fund balance appropriated during the past three years. This was primarily because District officials overestimated expenditures in their budgets. For example, the District spent about $450,000 less than budgeted in 2012-13.[3] Table 2 compares the amounts the District appropriated (planned operating deficits) with the actual operating deficits from 2010-11 through 2012-13.

Table 2: Results of Operations/Use of Appropriated Fund Balance

	2010-11	2011-12	2012-13	Total
Planned Operating Deficit [a]	($603,498)	($826,933)	($532,612)	($1,963,043)
Actual Operating Deficit	($195,397)	($213,201)	($88,256)	($496,854)
Percentage of Appropriated Fund Balance Used	32%	26%	17%	25%

[a] A planned operating deficit occurs when a board intentionally budgets appropriations that exceed budgeted revenues, with the difference to be made up by appropriating find balance.

[2] Real Property Tax Law allows a school district to retain unassigned fund balance of up to 4 percent of the next year's budget.

[3] The largest differences were in regular teaching, special education, transportation and employee benefits.

District officials did not have an explanation for why they continued to appropriate fund balance that was not available and also in large part not needed. Even though the District did not use as much fund balance as budgeted, it spent nearly $500,000 more than it received over the past three years. This reduced the unrestricted fund balance by 52 percent from the end of 2010-11 to $322,857 as of June 30, 2013.

If the District continues to generate operating deficits each year, it will gradually deplete fund balance, leaving nothing available to be used for financing future budgets. This will require the Board to either increase revenues (such as property taxes) and/or decrease appropriations (potentially reducing services) in order to adopt a structurally balanced budget. The Board needs to discontinue its excessive appropriations of fund balance and develop reasonably accurate budget estimates to maintain its financial stability.

Given the declining fund balance in the general fund, the District needs to evaluate all potential financing sources when preparing future budgets. In addition, District officials should ensure that cash is reported in the appropriate fund. For example:

- Debt Service Fund – As of June 30, 2013, the debt service fund had a balance of $769,272, comprising $255,704 related to debt that had been already paid off using general-fund moneys (and therefore improper) and $513,568 related to debt that the District has been paying down for current bonds due since 2004. (The original bond amount totaled $2,965,000, and the District has paid out approximately $1.7 million in principal from funds other than the debt service fund[4]). Over the past 10 years the District has made one payment from the debt service funds, in 2012-13, of $32,006. The District should transfer the $255,704 to the general fund. In addition, the remaining $513,568 should be used to offset payments on the related debt in future budgets.

- Trust and Agency Fund – At the end of 2012-13, the Trust and Agency (T&A) fund held $255,943 that belonged in the general fund. The T&A fund is used to account for money that is held for custodial purposes. The Business Manager/Treasurer said this money was in the T&A fund to ensure that payroll costs could be covered in the event that he was not available to transfer funds to the T&A fund for that purpose;

[4] When a district has bond proceeds and/or interest earned on bond proceeds left over after a project is complete, those moneys must be used to pay for debt service on the related obligations and accounted for in the debt service fund. Any moneys remaining after the related debt has been paid should be returned to the general fund.

however, instead of withholding this significant amount from operating funds, the District could designate another official as a backup to the Business Manager/Treasurer in his absence. The District has transferred money[5] from the general fund to the T&A fund over the past three years. The District's general fund cash position at June 30, 2013 was reported at $545,089 but should have been increased by $255,943. Reporting cash in the appropriate fund promotes transparency and provides officials with an accurate picture of the District's cash position.

Budget Monitoring

The Board needs pertinent and current financial information to effectively oversee District financial operations and make informed decisions about the annual budget and other fiscal matters. Effective management includes monitoring budgets during the course of the year and making any needed amendments to address revenue shortfalls or costs that exceed appropriations. According to the Regulations of the State Commissioner of Education, the Board can authorize the Superintendent to make budgetary transfers but is required to set limits on the amount that can be transferred without Board approval. Further, the Treasurer is required to provide the Board with monthly cash balance and reconciliation reports for all funds and with budget status reports at least quarterly, and monthly if budget transfers were made. The purpose of these reports is to help ensure that the Board receives the timely information it needs to monitor District spending and revenues against the annual budget and to stay apprised of the District's cash position and financial condition throughout the fiscal year.

The Board authorized the Superintendent to approve budget transfers but did not establish any dollar limits. Additionally, our review of financial information provided to the Board for 16 months did not find any budget-to-actual or budget transfer reports, nor did the Board meeting minutes make reference to such reports. (The Board did receive 12 monthly cash balance reports and bank reconciliations for all funds[6]). Without periodic financial reports, it is difficult for the Board to effectively oversee the District's financial operations and make informed decisions about the annual budget or other fiscal matters.

Long-Term Financial Planning

Long-term financial planning helps school district officials improve the budget development process and make timely and informed decisions about programs and operations. Planning on a multiyear basis enables District officials to identify revenue and expenditure

[5] The amount owed from T&A to the general fund was $86,648 in 2010-11, which increased to $170,338 in 2011-12 and to $255,943 in 2012-13.

[6] General fund, school food service fund, capital fund, special aid fund, two private-purpose trust funds, debt service fund and T&A fund

trends, establish long-term priorities and goals and consider the impact of near-term budgeting decisions on future fiscal years. It also allows them to assess alternative approaches (such as the use of unrestricted fund balance, reserves and debt service funds) to finance operations. An effective plan should consider projected enrollment trends/student population changes, economic conditions, changes in State aid and the impact of the property tax cap law on revenue projections. Further, increases in employee salary and benefit costs provided for in collective bargaining agreements, including medical insurance and required contributions to the retirement systems, must be addressed. Effective long-term plans project operating and capital needs and financing sources over a three- to five-year period.[7] Any long-term financial plan should be monitored and updated on a continuing basis to provide a reliable framework for preparing budgets and to ensure that information used to guide decisions is current and accurate.

The Board has not developed a multiyear financial plan and, therefore, lacks an important tool for improving the budgeting process and making timely and informed decisions about District programs and operations.

Recommendations

1. District officials should carefully consider the amount of fund balance they appropriate to fund future budgets and retain a reasonable amount of fund balance to address unanticipated needs and provide necessary cash flow for operations. Furthermore, the appropriated fund balance, if any, should not exceed the current unrestricted funds available.

2. The Board needs to evaluate the balance in the debt service fund and determine how best to use those funds to benefit District taxpayers. Residual bond proceeds should be used to pay related debt service obligations. Any remaining proceeds from retired debt should be transferred to the general fund.

3. District officials should ensure that all cash is recorded in the appropriate fund.

4. If the Board authorizes the Superintendent to approve budgetary transfers, it should establish a threshold limit that the Superintendent is allowed to make without prior Board approval.

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[7] The OSC website offers resources for developing long-term plans, including a four-year plan template and an online tutorial, at http://www.osc.state.ny.us/localgov/myfp/index.htm. See also "Multiyear Financial Planning" in the *OSC Local Government Management Guide* (http://www.osc.state.ny.us/localgov/pubs/lgmg/multiyear.pdf).

5. The Business Manager/Treasurer should provide the Board with monthly budget status reports. The Board should review the budget reports to monitor the District's budget throughout the year.

6. District officials should develop and regularly update a multiyear financial plan to provide a framework for future budgets and facilitate management of the District's financial operations.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Brookfield Central School

Achieving Academic Excellence

Superintendent
James Plows, Jr.

Principal
Kathleen Donovan

District Treasurer
Suzanne Scully

BROOKFIELD

1791

Board Members
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Jeffrey Beehm, Vice President
Gerry Elliott
Sean Karn
Ryan Rogers

District Clerk
Christa Case

P.O Box 60, 1910 Fairground Road, Brookfield, NY 13314 Telephone: (315) 899-3323 Fax: (315)-899-8902

March 27, 2014

Office of the State Comptroller

Division of Local Government

State Office Building, Room 409

333 E. Washington Street

Syracuse, NY 13202-1428

Dear Sir;

The following is our response to the recommendations contained in your audit report for the period July 1, 2012 – October 31, 2013.

Response to recommendation #1

Declining state financial support to our school district has put significant strain on our resources. As a result, in order to continue to provide appropriate educational opportunities for our students it has been necessary for the district to use substantial portions of our fund balance. In doing so district officials have and will continue to attempt to retain a reasonable fund balance level to address our cash flow needs.

In addition, the district will review its' budgeting practices with a goal of reducing the amount of fund balance appropriated for future budgets as recommended.

Response to Recommendation #2

In all previous budgets the board of education has evaluated the debt service fund balance and considered transferring funds to the general fund to offset debt service costs. In fact, the board has budgeted transfers from the debt service fund to the general fund in recent budgets. As recommended the board will develop guidelines to move proceeds from retired debt to the general fund.

Response to Recommendation # 3

See Note 1 Page 14

All cash has been recorded in the appropriate fund.

As noted in the audit exit conference the district strongly disagrees with the wording of this recommendation. The wording implies that assets are recognized in incorrect funds, which is not the case. The transfer of cash between funds to meet cash flow needs is a generally accepted accounting practice. At the time of the transfer the appropriate current asset and current liability has been recognized in the appropriate funds as required by generally accepted accounting practices for governments. However, the district will more closely monitor these amounts in the future so that when cash becomes available appropriate funds are repaid in a timely manner.

Response to recommendation #4

In its' annual resolution authorizing the superintendent to make budget transfers the board will designate a threshold amount.

Response to Recommendation #5

The board will be provided the budget status reports as recommended.

Response to recommendation #6

Annually, during the budget process, administration and the board of education review projected fund balance amounts. The district will continue to do so and will attempt to expand this information as recommended.

In conclusion, please inform me if there is any additional information you may require.

Sincerely,

James. H. Plows, Jr.

Superintendent

Cc; Board of Education

APPENDIX B

OSC COMMENT ON THE DISTRICT'S RESPONSE

Note 1

The money loaned by the general fund to the T&A fund was not required to address ongoing cash flow needs in the T&A fund. As such, it should be recorded in the general fund.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the District's financial condition. To achieve our financial condition objective and obtain valid audit evidence, our procedures included the following:

- We interviewed District officials to gain an understanding of the budget process. We reviewed financial information provided to the Board and Board minutes to determine the reports provided to the Board.

- We compared the District's accounting records to the annual update document (ST-3) and the audited financial statements.

- We evaluated the results of operations and analyzed cash balances as well as fund balance for the general fund. We compared budgeted data to actual revenues and expenditures to determine if the District operated within its budget. To gain additional background information and perspective, we also reviewed financial data back through the 2010-11 fiscal year.

- We obtained the fiscal year 2012-13 general-fund trial balance and tested it for accuracy by comparing the balances to original source documents on a sample basis and to verify the reconciliation of cash. We examined recorded cash receipts to determine whether accounts receivable could be realized. We reviewed claims for July and August 2013 to determine whether all significant liabilities were recorded.

- We reviewed the balances reported in the debt service fund to determine if any retired debt proceeds remained and the amount the District has expended from the debt service fund over the past 10 years.

- We interviewed District officials to determine if the District developed multiyear capital or operational plans.

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 D

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