

# Bolivar-Richburg Central School District

## Financial Management

JUNE 2019



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

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# Report Highlights

## Bolivar-Richburg 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 \$3.8 million and annually appropriated \$500,000 of fund balance that was not used to finance operations during our audit period.
- As of June 30, 2018, surplus fund balance totaled almost \$1.5 million, 7 percent of the 2018-19 budgeted appropriations, exceeding the statutory limit by approximately \$626,000.
- The reserve fund plan is inadequate and certain reserve balances were excessive and not being used.

### Key Recommendations

- Adopt budgets that include reasonable estimates for appropriations and the amount of fund balance that will be used to fund operations.
- Reduce surplus fund balance to comply with the statutory limit and use the excess funds in a manner more beneficial to taxpayers.
- Adopt a comprehensive written reserve policy, including plans for the use of reserves in accordance with applicable statutes.

District officials generally agreed with our recommendations and indicated they planned to initiate corrective action. Appendix B includes our comment on an issue raised in the District's response letter.

### Background

The Bolivar-Richburg Central School District (District) serves the Towns of Alma, Bolivar, Clarksville, Cuba, Friendship, Genesee and Wirt in Allegany County.

The seven-member Board of Education (Board) is responsible for managing and controlling the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is responsible for the District's day-to-day management. The Board, Superintendent and Business Administrator are responsible for developing the annual budget.

The Business Administrator is also responsible for the administration and supervision of financial activities.

#### Quick Facts

Enrollment	770
Employment	180
2018-19 Appropriations	\$20.9 million

### Audit Period

July 1, 2015 – December 7, 2018

# Financial Management

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## What Is Proper 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 will be available for use at year-end 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 both a specified amount of fund balance for cash flow needs or unexpected expenditures and reserves for other identified or planned needs. Fund balance is the difference between revenues and expenditures accumulated over time. The New York State Real Property Tax Law<sup>1</sup> currently limits the amount of surplus fund balance<sup>2</sup> that a school district can retain to no more than 4 percent of the next year's budget. Any surplus fund balance over this percentage must be used to reduce the upcoming fiscal year's real property tax levy or to fund needed reserves.

School districts are legally allowed to establish reserves and accumulate funds for certain future purposes (e.g., retirement expenditures). District officials should plan for the funding and use of reserves by balancing the desire to accumulate funds for future needs with the obligation to make sure real property taxes are not higher than necessary. It is important that the Board adopt a comprehensive written plan 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. Ideally, amounts to be placed in reserve funds should be included in the annual budget. By making provisions to raise resources for reserve funds explicit in the proposed budget, a board gives voters and taxpayers an opportunity to know the board's plan for funding reserves.

## Budget Estimates Were Unrealistic

We compared budgeted appropriations and estimated revenues with actual operating results for 2015-16 through 2017-18 and found that, while revenue variances were generally reasonable (underestimated by an annual average less than 2 percent), appropriations were overestimated by an average of \$1.3 million (7 percent) each year or a total of almost \$3.8 million.

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<sup>1</sup> Section 1318

<sup>2</sup> Surplus fund balance is defined as unrestricted fund balance minus appropriated fund balance and encumbrances included in committed and assigned fund balance. See our accounting bulletin at <https://www.osc.state.ny.us/localgov/pubs/releases/gasb54.pdf>

**Figure 1: Overestimated Appropriations**

	2015-16	2016-17	2017-18	Totals
<b>Budgeted Appropriations</b>	\$18,282,000	\$18,412,000	\$19,410,000	\$56,104,000
<b>Actual Expenditures<sup>a</sup></b>	\$17,077,000	\$17,277,000	\$17,976,000	\$52,330,000
<b>Overestimated Appropriations</b>	\$1,205,000	\$1,135,000	\$1,434,000	\$3,774,000
<b>Percentage Overestimated<sup>b</sup></b>	7%	7%	8%	7%

a Does not include year-end activity not included in the original budget  
b Overestimated appropriations divided by actual expenditures

The most significant overestimated appropriations were for employee benefits (\$2.1 million or 23 percent, an average of \$714,000 per year) and programs for students with disabilities (\$630,000 or 9 percent, an average of \$210,000 per year). The Business Administrator told us that the District annually overestimates certain appropriations to provide some room in the budget in the event revenues are below expectations or certain expenditures are higher than anticipated. Based on our review of the 2018-19 budget, these budgeting practices appear to have continued.

Because the Board overestimated appropriations, it appeared the District needed to appropriate fund balance to close projected budget gaps. The Board annually appropriated \$500,000 of fund balance that was not needed to finance operations in the 2015-16 through 2017-18 budgets. The Board continued this pattern with the 2018-19 budget, again appropriating \$500,000 of fund balance; based on our review, we expect that it is likely it will not be needed as a financing source.

When fund balance is appropriated for the next year’s budget, the expectation is that there will be a planned operating deficit equal to the amount of fund balance that was appropriated. However, primarily due to overestimated appropriations, the District experienced annual operating surpluses resulting in a three-year cumulative operating surplus totaling approximately \$3.4 million. As a result, surplus fund balance increased to nearly \$1.5 million as of June 30, 2018, and was 7 percent of the 2018-19 budgeted appropriations, exceeding the statutory limit by approximately \$626,000 or 3 percentage points. Surplus fund balance would have been more had the District not made more than \$2 million in unbudgeted transfers to other funds and transferred nearly \$1.1 million to the capital reserves.

**Figure 2: Surplus Fund Balance Reported by the District at Year-End**

	2015-16	2016-17	2017-18
<b>Beginning Fund Balance</b>	\$9,305,000	\$9,105,000	\$9,904,000
<b>Add: Operating Results</b>	\$885,000	\$1,219,000	\$1,252,000
<b>Less: Transfers Out<sup>a</sup></b>	\$1,085,000	\$420,000	\$816,000
<b>Ending Fund Balance</b>	\$9,105,000	\$9,904,000	\$10,340,000
<b>Less: Restricted Fund Balance (Reserves)</b>	\$7,305,000	\$8,045,000	\$8,362,000
<b>Less: Appropriated Fund Balance</b>	\$500,000	\$500,000	\$500,000
<b>Less: Encumbrances</b>	\$0	\$34,000	\$19,000
<b>Surplus Fund Balance</b>	\$1,300,000	\$1,325,000	\$1,459,000
<b>Next Year's Budget</b>	\$18,412,000	\$19,410,000	\$20,858,000
<b>Surplus Fund Balance as a Percentage of Next Year's Budget</b>	7%	7%	7%
<b>Amount Exceeding the Legal Limit</b>	\$564,000	\$548,000	\$626,000

<sup>a</sup> Transfers to the capital projects fund to finance voter approved capital projects and purchase buses. 2017-18 fiscal year included an unbudgeted transfer of \$162,000 to the cafeteria fund to eliminate an accumulated fund balance deficit.

The Board and District officials' 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 surplus fund balance. When unused appropriated fund balance is added back, surplus fund balance exceeded the limit each year by 5 to 6 percentage points (Figure 3).

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

	2015-16	2016-17	2017-18
<b>Surplus Fund Balance</b>	\$1,300,000	\$1,325,000	\$1,459,000
<b>Unused Appropriated Fund Balance</b>	\$500,000	\$500,000	\$500,000
<b>Recalculated Surplus Fund Balance</b>	\$1,800,000	\$1,825,000	\$1,959,000
<b>Next Year's Budget</b>	\$18,412,000	\$19,410,000	\$20,858,000
<b>Percentage</b>	10%	9%	9%

While the Board did not increase the tax levy from 2015-16, had officials adopted more realistic budgets, including a more accurate estimate of fund balance needed, they could have considered lowering the tax levy, or used these excess funds to fund one-time expenditures, fund needed reserves or pay off debt to benefit taxpayers.

The Business Administrator told us that the majority of the Board is comfortable with surplus fund balance at 7 percentage points and has directed her to maintain it at this level. The Business Administrator, nearing the end of the fiscal year, will verbally communicate to the Board the tentative results of operations. She said it is at this point the Board will decide, based on the recommendations of administration, how surplus fund balance will be used to maintain the desired level of approximately 7 percent.

### Funds Were Improperly Restricted in the Debt Service Fund

The District accounts for and reports a debt reserve in the debt service fund, which is separate from the general fund. As of June 30, 2018, this reserve had a reported balance of over \$1.4 million. While certain funds are required by law to be set aside and used to pay related debt, District officials were unable to identify the specific capital improvements or debt issuances for approximately \$528,000 of these funds.

Without a valid legal requirement to restrict these funds, District officials do not have the statutory authority to choose to reserve or otherwise set aside these funds in this reserve. Therefore, these funds should be added to surplus fund balance in the general fund. When these funds are added back, surplus fund balance exceeded the limit each year by 6 percentage points.

**Figure 4: Restated Surplus Fund Balance at Year-End**

	2015-16	2016-17	2017-18
<b>Surplus Fund Balance</b>	\$1,300,000	\$1,325,000	\$1,459,000
<b>Unidentified Debt Service Funds</b>	\$528,000	\$528,000	\$528,000
<b>Recalculated Surplus Fund Balance</b>	\$1,828,000	\$1,853,000	\$1,987,000
<b>Next Year's Budget</b>	\$18,412,000	\$19,410,000	\$20,858,000
<b>Percentage</b>	10%	10%	10%

### The Board Did Not Adopt an Adequate Reserve Fund Policy and Reserves Were Overfunded

Although the Board adopted a reserve fund plan, it did not include the financial objective, optimal funding levels and conditions for use for each reserve. We analyzed the balance of the District's seven<sup>3</sup> general fund reserves as of June 30, 2018, with combined balances totaling \$8.4 million, to determine whether they were properly established and the amounts retained were reasonable. We found that while the reserves were properly established, certain reserve balances were excessive and not being used.<sup>4</sup>

<sup>3</sup> The District has three voter-approved capital reserves reported as one capital reserve.

<sup>4</sup> Excluding the capital reserves (\$4.9 million) that were maintained within the established maximum funding and a repair reserve (\$67,000).

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- The Board established an insurance reserve to pay liability, casualty and other types of losses. The balance was almost \$1.3 million as of June 30, 2018. There has been no activity in this reserve and the balance has not changed in the last three fiscal years. Without a detailed plan, we question why this balance is maintained at this level.
  - The Board established an employee benefit accrued liability reserve to pay accrued leave time benefits due employees upon termination of employment. The balance was \$804,000 as of June 30, 2018, and has not changed in the past three fiscal years. The District has calculated a corresponding liability of approximately \$260,000. Consequently, the reserve remains overfunded by approximately \$544,000. Additionally, over the last three fiscal years, 10 employees have left District employment and received payments for accumulated leave accruals totaling \$114,000. These payments could have been funded by this reserve instead of using the tax levy.
  - The Board established a retirement contribution reserve to fund payments to the New York State and Local Retirement System. The balance was approximately \$614,000 as of June 30, 2018. While annual contributions averaged \$264,000 over the past three years, District officials have not used any reserve funds to pay for these expenditures and instead paid them from general fund appropriations. Given the lack of a detailed plan for this reserve, we question why it is maintained at this level.
  - The Board established a liability and property loss reserve to cover property loss and liability claims. The balance was approximately \$500,000 as of June 30, 2018, which was within the 3 percent authorized by Education Law.<sup>5</sup> There has been no activity in this reserve and the balance has not changed in the last three fiscal years. Given the lack of a detailed plan for this reserve, we question why it is maintained at this level.
  - The Board established an unemployment insurance reserve for payment of contributions to the New York State Unemployment Insurance Fund. This reserve is overfunded, with a balance of \$210,000 as of June 30, 2018. Over the last three fiscal years, unemployment expenditures have averaged \$1,500 per year. District officials have not used any reserve funds to pay for these expenditures and paid them from general fund appropriations. The reserve balance could fund related expenditures for over 100 years of average expenditures.

While it is a prudent practice for officials to save for future expenditures, retaining more funds than necessary in reserves and the debt service fund results in missed opportunities to use these funds in a manner that best benefits taxpayers.

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<sup>5</sup> Section 1709[8-c]



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## What Do We Recommend?

The Board and District officials should:

1. Develop and adopt budgets that include realistic estimates for appropriations and the amount of fund balance that will be used to fund operations.
2. Discontinue the practice of appropriating fund balance that is not needed or used to fund operations.
3. Develop a plan to reduce surplus fund balance to comply with the statutory limit. Surplus funds can be used for:
  - Funding one-time expenditures.
  - Funding needed reserves.
  - Paying off debt.
  - Reducing District property taxes.
4. Transfer money improperly residing in the debt service fund to the general fund.
5. Adopt a comprehensive written reserve policy to include the financial objective, targeted funding levels and conditions under which reserves will be used.
6. Review reserve balances and develop a plan to reduce balances to reasonable levels in accordance with applicable statutes.

# Appendix A: Response From District Officials

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## Bolivar-Richburg Central School District

*"The foundation of every nation is the education of its youth" ~ Diogenes*

April 3, 2019

Mr. Jeffrey D. 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 Bolivar-Richburg Central School District has received a draft copy of the audit conducted by the New York State Comptroller's Office. We would like to thank the Comptroller's Office for its recommendations on the issues identified throughout the examination of our Financial Management over the Selected Financial Operations of the District.

The District's response to the three audit findings and corresponding recommendations related to the financial management of the District are outlined below.

### Recommendations on the Financial Management of the District:

#### Recommendation:

*Adopt budgets that include reasonable estimates for appropriations and the amount of fund balance that will be used to fund operations.*

#### District's Response:

The Board of Education and Administration will make every reasonable attempt to construct more accurate budgets. We will continue to focus our efforts to build a budget that is reflective of our actual expenses. Please understand that many of our expenses continue to be unpredictable or 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. While the report indicates that the District's appropriations were overestimated by an average of \$1.3 million (7 percent) each year, we believe our budgeting methodology is justifiable.

The two main areas of the budget that we overestimate appropriations are in the area of employee benefits and programs for students with disabilities. Currently the District has twenty-eight employees who do not take the District's health insurance that they are eligible to receive. However, those employees at any time could choose to take that health insurance which would cost the District approximately \$500,000. With that being said, the District needs to be prepared in the event that happened and budget each year for some of those funds. While the likelihood of all those employees taking the insurance at one time is unlikely, we need to be prepared if several of them take the insurance. Additionally, it is oftentimes difficult to accurately estimate retirement expenses for employees when building the budget. Contribution rates for the Employees' Retirement System are typically not finalized when the District builds the budget, requiring us to estimate expenses higher than what may be necessary.

See  
Note 1  
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Middle/High School (6-12)  
100 School Street  
Bolivar, NY 14715  
Telephone: 585-928-2561  
Fax: 585-928-1368

Elementary School (K-5)  
P.O. Box 158, Main Street  
Richburg, NY 14774  
Telephone: 585-928-1380  
Fax: 585-928-2362

Pre-Kindergarten School  
422 Main Street  
Bolivar, NY 14715  
Telephone: 585-928-1919  
Fax: 585-928-2159

Another area of the District's appropriations the audit identified as overestimated is in the area of programs for students with disabilities. As you can see by the chart below, the District actually only overestimated appropriations in two of the three years audited. Additionally, the District's enrollment for students with disabilities fluctuates tremendously throughout the year, making it very difficult to budget for. Because of the fluctuation in enrollment and the fact that we underestimated appropriations in 2016-2017, the District does tend to budget additional funds into this area of the budget. The average high cost student attending a BOCES program (thirty-two students attended in 2017-2018) cost \$49,000 per student. The number of students in these programs increased from fourteen students just two years prior.

	2015-2016	2016-2017	2017-2018
Special Education Enrollment	113	104	125
Budget Appropriations	\$2,213,380	\$2,224,307	\$2,962,605
Actual Expenses	\$1,904,761	\$2,287,602	\$2,577,590
Amount Over/(Under) Budgeted	\$308,619	(\$63,295)	\$385,015

Recommendation:

*Reduce surplus fund balance to comply with the statutory limit and use the excess funds in a manner more beneficial to taxpayers.*

District's Response:

The District will continue to monitor its surplus fund balance and the amount in our reserves. The District is currently developing a strategic plan that will include a more detailed financial projection for the future. Additionally, the District will be using significant funds over the next two years to bring our District into the forefront of technological advancements, particularly in the area of one-to-one electronic devices.

Recommendation:

*Adopt a comprehensive written reserve policy, including plans for the use of reserves in accordance with applicable statutes.*

District's Response:

The Board of Education and District officials believe the balance in reserves established by the District provide a sound financial base in the event that an emergency may occur within the District. A majority of the reserves cited in the audit report were created and funded prior to the merger of the two Districts, and have been administered for their legally intended purpose. While there has been no activity in some of these reserves, we consider ourselves fortunate to not have had to use them. We will be reviewing all the reserves as part of our strategic plan and developing a more robust, detailed reserve plan in the months ahead.

The Bolivar-Richburg 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.

Sincerely,



Michael Retzlaff, Superintendent of Schools  
Bolivar-Richburg Central School District

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

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### Note 1

The New York State and Local Retirement System announces pension contribution rates approximately one year before the start of the District's fiscal year. The District's budget vote is in May, less than two months before the start of the fiscal year. Furthermore, contributions are based on the District's payroll. Consequently, officials have sufficient information to reasonably estimate these appropriations.

## 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 and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials to gain an understanding of the District's financial management policies and procedures and budgeting practices.
- We analyzed the general fund financial records from 2015-16 through 2017-18 and evaluated any factors contributing to fluctuations in fund balance.
- We reviewed the adopted general fund budgets from 2015-16 through 2017-18 to determine whether they were reasonable and structurally balanced by comparing adopted budgets with actual results of operations and analyzing significant budget-to-actual variances.
- We reviewed the adopted 2018-19 general fund budget to determine whether similar budgeting patterns existed in comparison with the 2015-16 through 2017-18 adopted budgets.
- We calculated surplus fund balance as a percentage of the next year's appropriations to assess compliance with statute.
- We recalculated surplus fund balance as a percentage of the next year's appropriations after adding back unidentified funds held in the debt service fund.
- We analyzed debt service fund and reserve fund financial records from 2015-16 through 2017-18 to assess whether District officials properly established and used reserves and whether the funding levels were reasonable.

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 District Clerk's office.

## 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#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

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

## Contact

Office of the New York State Comptroller  
Division of Local Government and School Accountability  
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: [localgov@osc.ny.gov](mailto:localgov@osc.ny.gov)

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

Local Government and School Accountability Help Line: (866) 321-8503

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