



Brewster Central School District Financial Condition

Report of Examination

Period Covered:

July 1, 2012 — December 4, 2013

2014M-224



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of District Officials	2
FINANCIAL CONDITION	3
Fund Balance	3
Budgeting	4
Reserves	4
APPENDIX A Response From District Officials	6
APPENDIX B Audit Methodology and Standards	8
APPENDIX C How to Obtain Additional Copies of the Report	9
APPENDIX D Local Regional Office Listing	10

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2014

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their district's 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 school 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 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 Brewster Central School District, entitled Financial Condition. This audit was conducted pursuant to Article V, Section 1 of the New York State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Brewster Central School District (District) is located in the Town of Southeast in Putnam County. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs, including establishing internal controls over financial operations and for maintaining sound financial condition. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The District operates four schools and had an enrollment of 3,240 students and 465 full-time employees during the school year ending June 30, 2014. The District's budgeted appropriations for the 2013-14 fiscal year were approximately \$86 million, funded primarily with property taxes, and State and federal aid.

Objective

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

- Do District officials ensure budget estimates and reserve balances are maintained at a reasonable level and unassigned fund balance is in accordance with statutory requirements?

Scope and Methodology

We examined the District's financial condition for the period July 1, 2012 through December 4, 2013. We extended our audit period back to July 1, 2010 to analyze the District's fund balance, operating results and financial trends, as well as the District's reserve fund activity.

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 B of this report.

Comments of District Officials

The results of our audit have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our findings.

Financial Condition

A school district's financial condition is a primary factor in determining its ability to continue providing public educational services for students in the district. The Board, Superintendent and Assistant Superintendent for Business are accountable to taxpayers for the use of District resources and are responsible for effective financial planning and management of District operations. District officials are responsible for developing reasonable budgets and managing fund balance responsibly and in accordance with statute. Sound budgeting practices, coupled with prudent fund balance management, help ensure that sufficient funding will be available to sustain operations, address unexpected occurrences, and satisfy long-term obligations or future expenditures.

District officials have taken appropriate action to manage the District's financial condition. District officials provided for effective financial planning and management by ensuring unrestricted unappropriated fund balance levels are in accordance with statutory requirements, and budget estimates and reserve balance levels are reasonable.

Fund Balance

A key measure of a 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 can provide cash flow, help finance the next fiscal year's operations, or help manage unexpected costs. New York State Real Property Tax Law limits the amount of unrestricted unappropriated fund balance a school district can retain to no more than 4 percent of the next year's budget appropriations.

District officials managed fund balance in accordance with statute. With the exception of the 2012-13 fiscal year, when the District incurred a planned operating deficit,¹ fund balance has generally been maintained at consistent levels. The District incurred the operating deficit in fiscal year 2012-13 because the Board dedicated \$704,878 of unreserved fund balance to fund increased project cost estimates resulting from damage to a previously unknown underground pipe. The Board also approved the transfer of \$291,256 to the capital fund to use for future payments to Putnam/Northern Westchester Board of Cooperative Educational Services (PNW BOCES) for the District's share of the Board-approved PNW BOCES capital

¹ A planned deficit is when appropriations exceed revenues and fund balance is used as a financing source to close the gap between the appropriations and revenues.

project. We analyzed the general fund's fund balances for fiscal years 2010-11 through 2012-13 and found that the District maintained its unrestricted unappropriated fund balance at or below the 4 percent limit, in accordance with statutory requirements, in each of these years. Specifically, the District maintained between \$3.3 million and \$3.4 million of unrestricted unappropriated fund balance during these years.

Budgeting

The Board is responsible for preparing and presenting the District's budget to the public for vote. In preparing the budget, the Board must estimate District revenues and how much surplus fund balance will be available to help fund the ensuing year's operations. The Board must then determine the tax levy. Accurate estimates are essential to ensure that the real property tax levy is not greater than necessary. After the budget is adopted, and until the tax levy is determined, certain information, such as updated estimates of State aid and the actual amount of available fund balance, becomes available. This information should be used to more accurately budget for expected revenues and the amount of appropriated fund balance used to reduce the tax levy.

We compared the District's budgeted revenues and expenditures for the general fund with actual results of operations for fiscal years 2010-11 through 2012-13 and found that District officials generally developed and adopted reasonable budgets over the three-year period. District officials recognize the need to be proactive in budget development and expenditure controls. The Board reviews budget-to-actual comparison reports throughout the year to monitor the budget and make operational and long-term planning decisions.

Reserves

Reserve funds may be established by Board action pursuant to various laws to provide financing for specific purposes. The statutes under which the reserves are established determine how the reserves may be funded, expended and discontinued. Generally, the amount of money a district can maintain in reserves is not limited. However, prudent budgeting practices require that reserves correspond as close as reasonably possible to the district's anticipated liabilities so that funds are not unnecessarily restricted. Funding reserves at greater than reasonable levels essentially results in real property tax levies that are higher than necessary because the excessive reserve balances are not being used to fund operations.

We reviewed the District's four reserves with reported balances totaling \$2.2 million as of June 30, 2013.² We analyzed the reserves

² Reserves are for unemployment benefits-\$250,000, retirement system contributions-\$1,121,667, tax certiorari-\$445,947 and employee benefit accrued liability-\$403,710.

for reasonableness and adherence to statutory requirements and determined that all were properly established. We also found that all were funded at reasonable levels. For example, we reviewed the activity for the tax certiorari reserve fund for the fiscal years 2010-11 through 2012-13 and found that the District had outstanding claims totaling \$445,949. District officials provided documentation which indicated that the current funding level is necessary to cover all the tax certiorari claims. In addition, based on the District's anticipated liabilities, officials reduced the unemployment benefits reserve by \$25,000 and the retirement contribution reserve by \$100,000 by the end of fiscal year 2013 by applying the funds to the general fund.

District officials have taken appropriate action to manage the District's financial condition. District officials meet regularly to monitor and evaluate the current year's budget and available fund balance, and to plan for future years' budgets. This planning includes an ongoing evaluation of the District's spending trends and projected future fund balance, as well as the District's reserve fund activity. We commend District officials for their progressive involvement in managing the District's financial condition. As a result, the District's financial position has remained strong.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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JAMES REESE
INTERIM BUSINESS OFFICIAL

October 7, 2014

Tenneh Blamah
Chief Examiner of Local Government and School Accountability
33 Airport Center Drive, Suite 103
New Windsor, NY 12553-4725

Dear Sir:

Let me begin by thanking the Office of the State Comptroller for their time and effort in assisting us to do the best job possible for our students and taxpayers. [REDACTED], your examiner-in-charge who worked with us here in Brewster, always conducted himself in a professional and courteous manner. In addition, [REDACTED] exhibited significant knowledge of school finances which proved invaluable to us.

We are pleased that your office commended District officials "for their progressive involvement in managing the District's financial condition" with the result that "the District's financial position has remained strong." We see this audit report as confirmation that the financial controls and procedures at the Brewster Central School District are effective and efficient.

In closing, the Office of the State Comptroller continues as a valuable resource for the Brewster Central School District, and we appreciate your service to us.

Sincerely,

Timothy J. Conway, Ed. D.
Superintendent of Schools

Cc: Board of Education
J. Reese
V. Karlsson
S. Tofte
J. Jimick

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials to determine the processes that were in place for, and to gain an understanding of, the District's financial situation and budget.
- We reviewed the District's policies and procedures for developing and reporting information related to financial and budgeting activities.
- We analyzed audited financial reports and three years of data filed with the Office of the State Comptroller to evaluate fund balance trends.
- We compared budget-to-actual revenues and expenditures and investigated significant variances.
- We evaluated the District's operating results and resulting fund balance for the audit period.
- We evaluated the methods used to fund reserves and monitor the level of reserve fund balance.

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.

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