



Bellmore Union Free School District Financial Condition

Report of Examination

Period Covered:

July 1, 2012 – June 30, 2015

2016M-276



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2016

Dear School District Officials:

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

Following is a report of our audit of the Bellmore Union Free 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 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 Bellmore Union Free School District (District) is located in the Town of Hempstead, Nassau County. The District is governed by the Board of Education (Board), which is composed of five elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools 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 Assistant Superintendent for Business and Technology Services is responsible for the District's finances and accounting records and reports.

The District operates three schools with approximately 1,020 students and 320 employees. The District's budgeted appropriations for the 2015-16 fiscal year were \$33.5 million, which were funded primarily with State aid and real property taxes.

Objective

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

- Did the Board and District officials effectively manage the District's fund balance?

Scope and Methodology

We examined the District's financial condition for the period July 1, 2012 through June 30, 2015.

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 are included in Appendix B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

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

The Board has the responsibility to initiate corrective action. 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, 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

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 reasonable estimates along with prudent fund balance management help ensure that sufficient funding will be available to sustain operations, address unexpected expenditures and satisfy long-term obligations or future expenditures. Reasonable budget estimates also help ensure that the real property tax levy is not greater than necessary. Districts are legally allowed to establish reserves and accumulate funds for certain future purposes (for example, capital projects or retirement expenditures).

Fund balance represents resources remaining from prior fiscal years. A district may retain a portion of fund balance but must do so within the limits established by New York State Real Property Tax Law. Currently, the amount of unrestricted fund balance that the District can retain may not be more than 4 percent of the ensuing fiscal year's budget. Any unrestricted funds that exceed the statutory limit may be transferred to legally established reserve funds or used to pay one-time expenditures, pay down debt or fund the next year's appropriations. When fund balance is appropriated as a funding source, the expectation is that there will be a planned operating deficit in the ensuing fiscal year equal to the amount of fund balance appropriated.

We reviewed the District's general fund budgets for the 2012-13 through 2014-15 fiscal years and found that actual expenditures were less than the budgeted appropriations for each fiscal year, as shown in Figure 1. The Board overestimated expenditures by an average of \$4.4 million per year from 2012-13 through 2014-15.

Figure 1: Overestimated Expenditures			
	2012-13	2013-14	2014-15
Appropriations	\$32,018,137	\$33,042,839	\$33,310,712
Actual Expenditures	\$27,443,377	\$28,372,350	\$29,385,808
Overestimated Appropriations	\$4,574,760	\$4,670,489	\$3,924,904
Percentage Overestimated	16.7%	16.5%	13.4%

Certain expenditures were overestimated each year. For example, the Board overestimated employee benefits, a significant portion of which was for health insurance. Although health insurance costs

have been no more than \$3 million in any of the years reviewed, budget estimates have been as high as \$4.4 million (47 percent over the actual cost). The Board budgeted for increases in appropriations for health insurance costs of 4.3 percent for 2013-14 and 4.6 percent for 2014-15, causing the gap between estimated appropriations and actual expenditures to grow from \$1.2 million in 2012-13 to \$1.4 million in 2014-15.

In addition, the Board adopted budgets that included about \$3.8 million in appropriated fund balance to finance District operations each year, as shown in Figure 2. However, the amounts appropriated were not used because, annually for the period, the Board overestimated expenditures. When fund balance is appropriated, the District is expected to experience an operating deficit and use the fund balance that was appropriated in the budget. Because the District's budgets resulted in operating surpluses in all three years reviewed, the District did not use any of the fund balance appropriated to finance operations. Instead, fund balance increased by the amount of the operating surplus.

Figure 2: Unrestricted Fund Balance at Year-End

	2012-13	2013-14	2014-15
Total Beginning Fund Balance	\$9,979,508	\$10,543,972	\$11,037,928
Add: Operating Surplus	\$564,464	\$493,956	\$259,599
Total Ending Fund Balance	\$10,543,972	\$11,037,928	\$11,297,527
Less: Restricted Fund Balance	\$3,903,817	\$4,631,509	\$4,616,499
Less: Encumbrances	\$145,738	\$64,530	\$690,068
Less: Appropriated Fund Balance for the Ensuing Year	\$3,869,265	\$3,794,265	\$3,646,783
Total Unrestricted Fund Balance at Year-End	\$2,625,152	\$2,547,624	\$2,344,177
Ensuing Year's Budgeted Appropriations	\$32,897,101	\$33,246,182	\$33,582,394
Unrestricted Fund Balance as a Percentage of Ensuing Year's Appropriations	8.0%	7.7%	7.0%

Over the past three fiscal years, the District's reported unrestricted fund balance at year-end exceeded the statutory limit. In addition, because the District did not need the amount that the Board appropriated in the budgets to finance operations, the District is, in essence, retaining more than the reported 7 to 8 percent by designating an unneeded portion of fund balance to support the ensuing year's budget. When unused appropriated fund balance is added back to the unrestricted fund balance at year end, the District's recalculated unrestricted fund

balance was between 17.8 and 19.7 percent of the ensuing year's budget, as indicated in Figure 3.

Figure 3: Recalculated Unrestricted Fund Balance at Year-End			
	2012-13	2013-14	2014-15
Total Unrestricted Fund Balance at Year-End	\$2,625,152	\$2,547,624	\$2,344,177
Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget	\$3,869,265	\$3,794,265	\$3,646,783
Recalculated Unrestricted Fund Balance at Year-End	\$6,494,417	\$6,341,889	\$5,990,960
Ensuing Year's Budgeted Appropriations	\$32,897,101	\$33,246,182	\$33,582,394
Recalculated Unrestricted Fund Balance as a Percentage of Ensuing Year's Budget	19.7%	19.1%	17.8%

Budgeting practices that overestimate expenditures and result in the accumulation and retention of excess funds can result in tax levies that are greater than necessary. The District increased the tax levy from \$22.6 million in 2012-13 to \$23.6 million in 2014-15. These increases may not have been necessary had the Board used more accurate budget estimates. Furthermore, the 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 unrestricted fund balance.

Recommendations

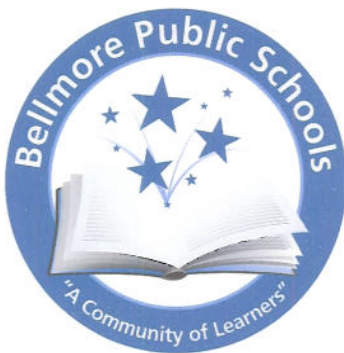
The Board and District officials should:

1. Develop general fund budgets that include reasonable estimates for expenditures and appropriated fund balance.
2. Ensure that the amount of unrestricted fund balance is in compliance with the statutory limit and develop a plan to use the surplus funds in a manner that benefits District residents, such as:
 - Funding one-time expenditures;
 - Funding needed reserves; and
 - Reducing District property taxes.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Office of the Superintendent

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www.bellmoreschools.org

Dr. Joseph S. Famularo, Superintendent of Schools

October 18, 2016

Mr. Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building
250 Veterans Memorial Highway
Hauppauge, NY 11788-5533

Dear Mr. McCracken,

The Bellmore UFSD (the District) prides itself on our proven track record of enhancing the educational program for our children while keeping taxes low for our community. We have consistently presented the community with budget proposals that comply with the tax levy limit legislation while maintaining all staff and services, as well as augmenting our instructional program.

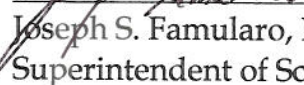
The District has been very fiscally conservative, and has not exceeded the tax levy cap since it was instituted. In fact, we are proud to have had levies lower than the cap each year, with a 5 year average of 1.85%, and a 0.71% levy increase for the 2016-2017 school year.

On May 17, 2016, voters approved the establishment of a new Capital Reserve Fund, enabling the District to complete the final step in a long term plan to reduce the unassigned fund balance. The establishment of a Capital Reserve Fund will allow the District to address major capital improvements in a manner that will not impact our budget or tax levy.

We thank you for the report and are pleased that after your thorough review of our operations, no areas related to operational improprieties, waste or abuse were identified by the audit. The Bellmore UFSD is committed to maintaining strong fiscal controls and efficient operations to ensure the continuity and sustainability of both student programs and the community's investment in its school system.

Sincerely,

Marion Blane
Board of Education, President


Joseph S. Famularo, Ed.D.
Superintendent of Schools

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials and employees to gain an understanding of the budget process and financial operations.
- We calculated the general fund's unrestricted fund balance as a percentage of the ensuing years' budgets to determine if the District was within the statutory limitation during fiscal years 2012-13 through 2014-15.
- We compared the budgeted revenues and appropriations to the actual revenues and expenditures for 2012-13 through 2014-15 to determine if the District's budget estimates were reasonable.
- We reviewed the District's real property tax levies for 2012-13 through 2014-15 to determine if the tax levies increased.

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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