



# Brocton Central School District

---

## Financial Management

**2023M-44 | August 2023**

# Contents

---

- Report Highlights . . . . . 1**
  
- Financial Management. . . . . 2**
  - How Should a School Board and School District Officials Properly Manage Fund Balance? . . . . . 2
  
  - The Board and District Officials Did Not Properly Manage Fund Balance . . . . . 2
  
  - How Should a School Board Properly Manage Reserve Funds? . . . . 4
  
  - The Board and District Officials Did Not Properly Manage Reserves. . . . . 4
  
  - What Do We Recommend? . . . . . 8
  
- Appendix A – Response From District Officials . . . . . 10**
  
- Appendix B – OSC Comment on the District’s Response. . . . . 11**
  
- Appendix C – Audit Methodology and Standards . . . . . 12**
  
- Appendix D – Resources and Services. . . . . 14**

# Report Highlights

## Brocton Central School District

### Audit Objective

Determine whether the Brocton Central School District (District) Board of Education (Board) and District officials properly managed fund balance and reserves.

### Key Findings

The Board and District officials did not properly manage fund balance and reserves. As a result, the Board and District officials were not transparent with taxpayers and levied more taxes than necessary to fund operations. The Board and District officials:

- Overestimated budgetary appropriations by an annual average of \$1.3 million (8 percent) and allowed surplus fund balance to exceed the statutory limit as of June 30, 2022 by 7 percentage points or \$1.2 million.
- Could not demonstrate that six reserves with balances totaling more than \$2.2 million were funded or used as management intended.
- Did not establish a comprehensive reserve fund policy or develop annual reserve reports.

### Key Recommendations

- Adopt budgets that include reasonable estimates for appropriations and reserves that will be used to fund operations.
- Reduce surplus fund balance to comply with the statutory limit.
- Reduce overfunded 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 issues District officials raised in their response.

### Background

Fund balance represents the cumulative residual resources from prior fiscal years. A school 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.

The District serves the Towns of Pomfret, Portland and Stockton in Chautauqua County. The seven-member Board is responsible for the District's general management and control of financial affairs.

The Superintendent of Schools (Superintendent) is the chief executive officer responsible for the District's day-to-day management.

The Business Executive (Executive) oversees the District's business operations and maintains its financial records. The Board, Superintendent and Executive are responsible for developing the budget.

#### Quick Facts

2022-23 Appropriations	\$18.1 million
2022 General Fund Surplus Fund Balance	\$2 million

### Audit Period

July 1, 2019 – November 16, 2022

We extended our audit period back to review historical activity, as indicated in Appendix C.

# Financial Management

## How Should a School Board and School District Officials Properly Manage Fund Balance?

To properly manage fund balance, a school board should adopt realistic and structurally balanced budgets based on historical or known trends in which recurring revenues finance recurring expenditures. Additionally, a school board must comply with New York State Real Property Tax Law Section 1318 which currently limits the amount of surplus fund balance that a school district can retain no more than 4 percent of the next year’s budget. The school board must use any surplus fund balance over this percentage to reduce the upcoming real property tax levy or to fund needed reserves.

In preparing the budget, a school board and school district officials must estimate:

- The amounts a school district will spend and receive,
- The amount of fund balance that will be available at fiscal year-end to use toward the next year’s budget or to fund needed reserves, and
- The expected real property tax levy needed to balance the budget.

Accurate estimates help ensure that the tax levy is not greater than necessary and that surplus fund balance amounts are not over the legal limit.

## The Board and District Officials Did Not Properly Manage Fund Balance

We compared budgeted revenues and appropriations with actual operating results from July 1, 2019 through June 30, 2022. While revenue estimates were generally reasonable, appropriations were overestimated by an average of approximately \$1.3 million annually (8 percent), or a cumulative total of approximately \$3.9 million (Figure 1). The most significant were appropriations for employee benefits, which were overestimated by approximately \$1.9 million (16 percent) for the three years or annually by an average of \$635,000.

**Figure 1: Overestimated Appropriations (In Millions)**

	2019-20	2020-21	2021-22	Totals
<b>Appropriations<sup>a</sup></b>	\$17.1	\$17.1	\$17.9	<b>\$52.1</b>
<b>Less: Adjusted Expenditures<sup>b</sup></b>	16.0	15.5	16.7	<b>48.2</b>
<b>Overestimated Appropriations</b>	\$1.1	\$1.6	\$1.2	<b>\$3.9</b>
<b>Percentage Overestimated<sup>c</sup></b>	7%	10%	7%	<b>8%</b>

a) Includes encumbrances (prior year funds scheduled to be paid or disbursed in the current fiscal year and recorded with the current year's expenditures)

b) Includes budgeted portion of transfers to other funds

c) Overestimated appropriations divided by adjusted total expenditures

---

Because large portions of employee benefit costs are determined by contractual agreements, District officials had sufficient information to reasonably estimate anticipated expenditures. The Executive told us that they annually overestimated certain appropriations, including employee benefits, to provide budgetary flexibility, in the event expenditures were higher than anticipated. In addition, the Superintendent and two Board members told us that overestimating certain appropriations and maintaining excess surplus fund balance was in the District's best interest so that the real property tax levy would remain consistent, and taxpayers knew what to expect year to year. While it is necessary to consider unexpected expenditure fluctuations during budget preparation, the Board and District officials should consider previous years' results of operations and surplus fund balance – which was nearly \$2 million at the end of 2021-22 – available to accommodate such expenditures.

Because the Board and District officials overestimated appropriations, it appeared the District needed to use appropriated fund balance to close projected budget gaps. When school district officials appropriate fund balance in a budget developed with reasonable revenue and expenditure estimates, the school district should incur a planned operating deficit in the next fiscal year equal to the amount of fund balance appropriated. This allows a school district to reduce excess surplus fund balance accumulated in prior years to within the legal limit. In fiscal years 2019-20 through 2021-22, the Board appropriated an average of \$600,000 of fund balance each year. However, the District's actual annual revenues were more than sufficient to cover annual expenditures. As a result, the District experienced operating surpluses each year and realized a cumulative operating surplus totaling approximately \$1.4 million. The District did not use any of the fund balance that was appropriated and total fund balance continued to increase. As of June 30, 2022, surplus fund balance totaled nearly \$2 million and exceeded the statutory limit by 7 percentage points or \$1.2 million.

Furthermore, we reviewed the 2022-23 budget and determined that revenue and expenditure estimates are consistent with the last four fiscal years. As such, the District will most likely generate another operating surplus in 2022-23, and it will not need to use the approximately \$825,000 of surplus fund balance appropriated in the 2022-23 budget.

The Board and District officials' practice of appropriating fund balance that is not needed is, in effect, a reservation of fund balance that is not provided for by statute and is a circumvention of the statutory limit on surplus fund balance. Appropriating fund balance that is not needed artificially reduces the amount of surplus fund balance subject to the statutory limit, giving the appearance that surplus fund balance is within or closer to the statutory limit. For perspective, when unused appropriated fund balance is included in surplus fund balance, the District's surplus fund balance as of June 30, 2022 would have totaled \$2.8 million and exceeded the statutory limit by over \$2 million, or 11 percentage points.

---

Because the Board and District officials overestimated appropriations, it appeared the District needed to use appropriated fund balance to close projected budget gaps.

---

---

Although the District's tax levy has remained relatively flat, increasing only \$67,000 or 1.4 percent over the three-year period, officials' budgeting practices artificially inflate the total budget and result in a real property tax levy that is higher than needed to finance actual expenditures. Furthermore, by continually overestimating appropriations year after year, District officials are not presenting the District's spending plan in a transparent and meaningful manner to taxpayers.

### **How Should a School Board Properly Manage Reserve Funds?**

To properly manage reserve funds, a school board should adopt a comprehensive written reserve fund policy that states its rationale for establishing reserve funds and the objectives for each reserve, maximum targeted funding levels, conditions under which reserves will be used or replenished, and a periodic review of reserve balances to assess reasonableness. It is essential that the school board first establish its expectations through a comprehensive written board-adopted policy. Then, school district officials can further implement expectations through the development of comprehensive written plans or procedures. A reserve fund policy helps ensure that reserve balances are funded as the school board intended.

While school districts are generally not limited to the amount of funds that can be held in reserves, a school board should maintain reserve balances which are reasonable. A school board should balance the intent for accumulating funds for identified future needs with the obligation to help ensure real property taxes are not higher than necessary.

School districts are required to set certain funds aside and use them to pay related debt. A school board should ensure compliance with New York State Local Finance Law Section 165 that requires a debt reserve to be established if unexpended bond proceeds remain after a capital improvement project is completed. The debt reserve should be recorded in the debt service fund and must be used for related debt principal and interest payments.

In addition, school boards should include amounts to be placed in reserve funds in the annual budget. By making provisions to raise resources for reserve funds explicit in the proposed budget, a school board gives voters, residents and taxpayers an opportunity to know its plan for funding reserves.

### **The Board and District Officials Did Not Properly Manage Reserves**

As of June 30, 2022, the District reported eight reserves in the general fund totaling approximately \$2.9 million. The Board adopted a written reserve fund policy in April 2017. However, the policy is not comprehensive because it does not address:

---

... [A] school board should adopt a comprehensive written reserve fund policy. ...

---

- 
- The rationale for establishing each reserve,
  - Specific objectives for the reserves,
  - Funding methods, or
  - Conditions under which the reserves would be used or replenished.

The policy requires an annual report to the Board that includes a description of the reserves, the date of establishment, interest earned, withdrawal details, ending balances and an analysis of projected needs for the reserves in the upcoming fiscal year with a recommendation regarding funding those needs. Although the Executive created and submitted a yearly reserve fund plan that functioned as the annual report to the Superintendent for review and the Board for approval, the reserve plan did not include all the information required by the policy or needed for the Board to make informed decisions such as the amount paid into and withdrawn from each reserve or an analysis of the projected need for the reserves in the upcoming fiscal year.

Two Board members told us that they were unaware that the Board's policy was not comprehensive or that the State Comptroller's Office had a publication specifically designed to assist with reserve fund management available on our website.<sup>1</sup> In addition, both the Superintendent and the Executive told us that they were unaware that the annual reserve plan required certain information and that the report submitted did not include this information, but that they felt that the information given to the Board was adequate. However, without the information required by the policy such as analysis of the projected need for reserves, the Board cannot provide proper oversight or assurance that reserve balances do not exceed the amount necessary to address long-term obligations or planned expenditures.

While the reserves were properly established, they were generally not used even though the District appropriated \$230,000 in reserves during the audit period. The capital reserve, which had a \$500,000 voter-approved balance as of June 30, 2022, and the tax certiorari (legal claims challenging real property tax assessments) which had a balance of \$150,000 as of June 30, 2022, were appropriately funded and used. However, District officials could not demonstrate that a debt reserve with a balance of \$736,000 was properly recorded, funded and used, and five reserves totaling approximately \$1.5 million were reasonable and necessary.

Certain reserves were overfunded based on a review of eligible liabilities, a historical cost trend analysis and their use. Furthermore, the Board and District officials did not transparently fund reserves by including a provision to fund

---

While the reserves were properly established, they were generally not used...

---

---

1 <https://www.osc.state.ny.us/files/local-government/publications/pdf/reserve-funds.pdf>

---

reserves in the annual budget. From July 1, 2019 through June 30, 2022, the reserves increased by more than \$1.1 million through unbudgeted transfers at fiscal year-end.

Debt Reserve – The District incorrectly reported a debt reserve with \$736,000 in the general fund instead of the debt service fund as of June 30, 2022. Although District officials were required to restrict unexpended bond proceeds totaling \$498,000 in the debt reserve, officials were unable to identify the source of the remaining \$238,000 or demonstrate there was a statutory requirement to restrict the funds. Without statutory authority to restrict these funds for the repayment of debt, the excess \$238,000 in the debt reserve should be considered general fund surplus fund balance subject to the 4 percent statutory limit.

Furthermore, during our audit period, officials budgeted to use \$230,000 from the reserve to pay debt principal or interest payments but reserve funds were not used as budgeted. The Superintendent told us the reserve was not used because there were sufficient appropriations in the general fund annual budget for debt service-related payments. By not using the debt reserve as intended and required, the Board and District officials have missed opportunities to lower the real property tax levy.

Retirement Contribution Reserve (New York State Teachers' Retirement System) – The Board established this reserve to fund contributions to the New York State Teachers' Retirement System. School districts are allowed to reserve up to 10 percent of teachers' salaries paid in the preceding fiscal year. As of June 30, 2022, this reserve had a balance of approximately \$372,000, which was within the allowable limit.

From 2019-20 through 2021-22, the District incurred associated retirement contribution costs averaging approximately \$423,000, which were budgeted for and paid from general fund appropriations, not the reserve. The Superintendent told us reserve funds were not used because it was not necessary due to general fund operating surpluses. While the balance in this reserve was within the limit established by the reserve fund plan, we question why the District maintained this reserve at this level, because there was no formalized written policy stating specifically when or how the Board intends to use the reserve.

Retirement Contribution Reserve (New York State and Local Retirement System) – Although the Board established this reserve to fund contributions to the New York State and Local Retirement System and the reserve had a balance of approximately \$272,000 as of June 30, 2022, District officials did not use the reserve to pay for related expenditures. From 2019-20 through 2021-22, the District incurred associated retirement contribution costs totaling approximately \$530,000.

---

The Superintendent told us that funds from the reserve were not needed because of general fund operating surpluses, and that the Board and District officials chose to save the reserve to be used during periods of financial difficulty. We question the need for this reserve to be maintained at its current funding level considering it was not used during the audit period and the District's policy does not define when the reserve would be used or define financial difficulties that would trigger use of the reserve.

Employee Benefit Accrued Liability Reserve (EBALR) – The Board established this reserve to pay accrued leave time benefits due to employees when separating from District employment. As of June 30, 2022, this reserve had a balance of approximately \$340,000. The corresponding potential liability as of June 30, 2022, was \$254,000, which means this reserve was overfunded by \$86,000.

Additionally, from 2019-20 through 2021-22, the District paid approximately \$77,000 in separation payments to employees for accrued leave that could have been paid from this reserve but were instead paid from general fund appropriations. The Executive told us that the EBALR overfunding was a result of an erroneous historical calculation that included costs for employees that did not meet eligibility requirements, and that the District did not use the EBALR for separation payments because funds were not needed as a result of general fund operating surpluses.

Workers' Compensation Reserve – The Board established this reserve to pay for workers' compensation claims. As of June 30, 2022, the reserve had a balance of approximately \$309,000. From 2019-20 through 2021-22, the District paid approximately \$215,000 in workers' compensation claims. No reserve funds were used to pay for these expenditures and except for interest earnings, the reserve's balance has remained unchanged.

The Executive told us that budgets did not include the use of this reserve because District officials did not know ahead of time how much would be needed to pay claims. We disagree with this statement. District officials could use a historical cost average to determine a reasonable amount to appropriate and include in the operating budget. While the balance of this reserve is within the plan's targeted funding level, we question why the District has funded this reserve to this level when it has not been used and the balance is sufficient to cover four years of expenditures.

Unemployment Insurance Reserve – The Board established this reserve for the payment of claims to the New York State Unemployment Insurance Fund. As of June 30, 2022, the reserve had a \$256,000 balance. If unemployment costs continue to average \$16,000 per year, as they have over the last three years,

---

the reserve at its current funding level would be sufficient to pay average annual unemployment expenditures for more than 15 years.

We question the need to maintain the reserve at its current level when District officials could reduce it to a reasonable level and use the excess funds for a purpose more beneficial to current taxpayers.

Because the Board did not adopt a comprehensive written reserve fund policy and District officials did not complete a comprehensive annual reserve fund report as required, District officials could not demonstrate, except for the capital reserve and the tax certiorari, that the balances held in the other reserves were needed or reasonable. Funding reserves at levels higher than necessary for operations and/or needs creates an undue burden on taxpayers and withholds funds that may have been used in a more beneficial way to current District residents and taxpayers.

## **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 and reserves that will be appropriated and used to fund operations.
2. Discontinue the practice of appropriating fund balance that is not needed or used to fund operations.
3. Develop and adopt a plan to reduce surplus fund balance to comply with the statutory limit. Surplus funds can be used for:
  - Reducing District property taxes,
  - Funding one-time expenditures,
  - Funding needed reserves, and
  - Paying off debt.
4. Update and adopt a comprehensive written reserve fund policy that addresses the objective of each reserve, rationale for funding levels and conditions under which reserves will be used and replenished.
5. Transparently fund reserves by including anticipated funding of reserves in the annual operating budget.
6. Review all reserve balances to determine whether the amounts reserved are necessary and reasonable. Reduce overfunded reserves to reasonable levels; and liquidate and discontinue reserve funds that are no

---

longer needed or whose purpose has been achieved, in accordance with applicable statutes.

7. Transfer unexpended bond proceeds improperly restricted in the general fund to a debt reserve in the debt service fund and use the proceeds to pay the related debt principal and interest payments as required.
8. Transfer funds improperly held in the debt reserve to the general fund as surplus fund balance.

# Appendix A: Response From District Officials

## Brocton Central School District

*"Dedicated to Excellence in Education"*

### Board of Education

Robert Mead-Colegrove, President  
Steven Smith, Vice President  
Matthew Brady  
Rosanne Chesbro  
Neil Huber  
Melissa Seavy  
Stewart Thompson



### Administration

Jason Delcamp, Superintendent  
Caitlin Barkley, Business Executive/District Treasurer  
Sandra Kopiczak, Elementary Principal  
Elizabeth Antolina, MS/HS Principal  
Melanie Ulinger, Director of Special Education/  
Director of Curriculum  
Ashley Means, District Clerk

July 6, 2023

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

To Whom it May Concern:

The Brocton Central School District is in receipt of the Draft Report of Examination on Financial Management for the time period of July 1, 2019 – November 16, 2022, 2023M-44. Our District welcomes feedback and appreciates the opportunity this report could provide.

The District has reviewed the Comptroller's findings and recommendations and will take these recommendations under advisement as we develop our corrective action plan.

The District works closely with our fiscal advisors to review our financial management practices, procedures, and financial condition. We understand the need to develop a more comprehensive written reserve plan and policy. The District will work with our fiscal advisors in the development of the plan and policy. At the conclusion of the 2019-2020 and 2020-2021 school years the District had to plan for the threat and then actual withhold of state aid to the District, as a result of the COVID-19 pandemic. The District had many unknown expenditures as we educated students in an unprecedented way. These unknowns affected both our budget process and planned reserves and fund balance. The District is committed to maintaining excellent instructional programs for all students while understanding the resource capacity of the community and economic condition of the state.

See  
Note 1  
Page 11

Sincerely,

Jason C. Delcamp  
Superintendent

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

---

## Note 1

Although the COVID-19 pandemic created a degree of financial uncertainty, the Board and District officials consistently overestimated appropriations and appropriated fund balance that was not needed prior to the pandemic as well.

## Appendix C: Audit Methodology and Standards

---

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 and reviewed Board meeting minutes, resolutions and policies to gain an understanding of the District's financial management policies, procedures and budgeting practices.
- We analyzed general fund financial records from 2019-20 through 2021-22 and evaluated any factors contributing to fluctuations in fund balance, including real property tax levy fluctuations and trends.
- We reviewed the adopted general fund budgets from 2019-20 through 2021-22 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 extended our audit scope period to review historical reported results of operations for fiscal years 2017-18 through 2018-19 and to determine budget to actual variances within the general fund revenues and appropriations.
- We reviewed the District's results of operations from 2019-20 through 2021-22 and calculated surplus fund balance as a percentage of the next year's appropriations for compliance with the statutory limit.
- We recalculated surplus fund balance as a percentage of the next year's appropriations after adding back appropriated fund balance not used to fund the next year's operations.
- We reviewed reserve fund balances as of June 30, 2022, to assess whether they were properly established and used and reasonably funded.
- We compared the District's 2022-23 budget to previous years and inquired with District officials regarding changes to their budgeting methods.

We conducted this performance audit in accordance with generally accepted government auditing standards (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.

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

## Appendix D: Resources and Services

---

### **Regional Office Directory**

[www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf](http://www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf)

**Cost-Saving Ideas** – Resources, advice and assistance on cost-saving ideas

[www.osc.state.ny.us/local-government/publications](http://www.osc.state.ny.us/local-government/publications)

**Fiscal Stress Monitoring** – Resources for local government officials experiencing fiscal problems

[www.osc.state.ny.us/local-government/fiscal-monitoring](http://www.osc.state.ny.us/local-government/fiscal-monitoring)

**Local Government Management Guides** – Series of publications that include technical information and suggested practices for local government management

[www.osc.state.ny.us/local-government/publications](http://www.osc.state.ny.us/local-government/publications)

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

[www.osc.state.ny.us/local-government/resources/planning-resources](http://www.osc.state.ny.us/local-government/resources/planning-resources)

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

[www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf](http://www.osc.state.ny.us/files/local-government/publications/pdf/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/local-government/required-reporting](http://www.osc.state.ny.us/local-government/required-reporting)

**Research Reports/Publications** – Reports on major policy issues facing local governments and State policy-makers

[www.osc.state.ny.us/local-government/publications](http://www.osc.state.ny.us/local-government/publications)

**Training** – Resources for local government officials on in-person and online training opportunities on a wide range of topics

[www.osc.state.ny.us/local-government/academy](http://www.osc.state.ny.us/local-government/academy)

## 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/local-government](http://www.osc.state.ny.us/local-government)

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

**BUFFALO REGIONAL OFFICE** – Melissa A. Myers, Chief of Municipal Audits

295 Main Street, Suite 1032 • Buffalo, New York 14203-2510

Tel (716) 847-3647 • Fax (716) 847-3643 • Email: [Muni-Bufferalo@osc.ny.gov](mailto:Muni-Bufferalo@osc.ny.gov)

Serving: Allegany, Cattaraugus, Chautauqua, Erie, Genesee, Niagara, Orleans, Wyoming counties

[osc.state.ny.us](http://osc.state.ny.us)

