



# Franklin Square Union Free School District Fund Balance

## Report of Examination

Period Covered:

July 1, 2014 – March 2, 2016

2016M-129



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

July 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 Franklin Square Union Free School District, entitled Fund Balance. 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 Franklin Square Union Free School District (District) is located in the Town of Hempstead in Nassau County. The District is governed by a five-member Board of Education (Board) responsible for the general management and control of the District's financial and educational affairs. 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 Assistant Superintendent of Finance plays a key role in the budget development process along with performing the daily accounting duties.

The District operates three elementary schools with approximately 1,840 students and 370 employees. The District's 2015-16 general fund budgeted appropriations are \$36.7 million, funded primarily with real property taxes and State aid.

## Objective

The objective of our audit was to evaluate the District's fund balance. Our audit addressed the following related question:

- Did the Board and District officials maintain reasonable fund balance levels?

## Scope and Methodology

We examined the District's general fund balances for the period July 1, 2014 through March 2, 2016. We extended our scope back to July 1, 2012 and forward to June 30, 2016 to trend and project revenues, expenditures and fund balance.

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.

## 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 findings and indicated that they will initiate or have initiated 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.

## Fund Balance

The Board and District officials are responsible for making sound financial decisions that are in the best interest of the District, the students they serve and the residents who fund the District's programs and operations. Fund balance represents resources remaining from prior fiscal years that can be used to finance the next year's budget, set aside in legally established reserve funds for specific purposes or both. Districts may establish reserves to restrict a reasonable portion of fund balance for a specific purpose. The Board is responsible for developing a formal plan for the use of those reserves, including optimal or targeted funding levels.

New York State Real Property Tax Law currently limits the amount of unrestricted fund balance that can be legally retained by District officials to no more than 4 percent of the ensuing year's budget. Accurate budget estimates help the Board ensure that real property levies are not greater than necessary. Budget estimates should be developed based on prior years' operating results, past trends, anticipated future needs and available information related to projected changes in significant revenues and expenditures.

The Board and District officials did not maintain a reasonable amount of unrestricted fund balance. While the District has four reserves totaling approximately \$4.2 million<sup>1</sup> that we determined were reasonably funded based on their supporting documentation and future plans, unrestricted fund balance has exceeded the 4 percent statutory limit for the last three completed fiscal years by an average of 11.9 percentage points (See Figure 1).

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<sup>1</sup> The District's four reserves include compensated absences, retirement contributions, unemployment insurance and workers' compensation with a total balance of \$4.2 million at March 2, 2016.

**Figure 1: Unrestricted Fund Balance at Year-End**

	2012-13	2013-14	2014-15
Total Beginning Fund Balance	\$10,038,855	\$10,604,338	\$11,171,792
Add: Operating Surplus/(Deficit)	\$565,483	\$567,454	(\$16,277)
Total Ending Fund Balance	\$10,604,338	\$11,171,792	\$11,155,515
Less: Restricted Funds	\$3,460,831	\$3,893,038	\$3,896,553
Less: Encumbrances	\$404,772	\$192,648	\$42,153
Less: Appropriated Fund Balance for the Ensuing Year	\$1,265,000	\$1,265,000	\$1,265,000
Total Unrestricted Funds at Year-End	\$5,473,735	\$5,821,106	\$5,951,809
Ensuing Year's Budgeted Appropriations	\$35,561,500	\$36,255,700	\$36,728,580
Unrestricted Funds as Percentage of Ensuing Year's Budget	15.39%	16.06%	16.20%

When the unused appropriated fund balance was added back, the District's recalculated unrestricted fund balance exceeded the statutory limit each year by an additional 3.5 percentage points on average (see Figure 2).

**Figure 2: Unused Fund Balance**

	2012-13	2013-14	2014-15
Total Unrestricted Funds at Year-End	\$5,473,735	\$5,821,106	\$5,951,809
Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget	\$1,265,000	\$1,248,723	\$1,265,000 <sup>a</sup>
Total Recalculated Unrestricted Funds	\$6,738,735	\$7,069,829	\$7,216,809
Recalculated Unrestricted Funds as Percentage of Ensuing Year's Budget	18.95%	19.50%	19.65%

<sup>a</sup> This number is based on our projected results of operations for fiscal year 2015-16 as of May 12, 2016.

District officials budgeted to use \$3.8 million of unrestricted fund balance for the fiscal years 2012-13 through 2014-15. Instead, the District experienced cumulative surpluses totaling \$1.1 million and used only \$16,300 in 2014-15. We compared budgeted revenues and appropriations to the actual revenues and expenditures for these three completed fiscal years and found the average variances were less than 1 percent for revenues and over 4 percent for expenditures. The generated surpluses were a result of overestimating various expenditures, which were specifically in service, contractual and debt interest costs. Service costs were overestimated on average by more than \$702,000, or 3.3 percent, annually even though these estimates should be mostly based on collective bargaining agreements. The contractual lines were overestimated on average by over \$633,000

a year, including fuel oil estimates of \$62,000 that were never expended and transportation estimates of \$297,000. Additionally, District officials budgeted \$135,000 for debt interest each of the last three years that was never expended. Debt principal and interest costs should be based on scheduled payments and therefore should be accurately budgeted. Furthermore, the 2015-16 budget continues to include these overestimated expenditures. Therefore, we project the District will not use any of the \$1.27 million fund balance appropriated for 2015-16.

The Superintendent told us that they focus on keeping the tax levy low and preparing for emergency spending by overestimating expenditures and budgeting to use fund balance. However, overestimating expenditures results in taxes being higher than necessary. The Superintendent and Board members are aware that unrestricted fund balance is in excess of the statutory limit and told us that they plan to fund a capital reserve with approximately \$4.5 million of the excess unrestricted fund balance for upcoming renovations. The District's voters approved a \$10 million capital reserve in May 2016.

The result of these budgeting practices made it appear that the District needed to both raise the tax levy, which increased in total by more than 5 percent over the two-year period from 2012-13 through 2014-15, and use fund balance to close projected budget gaps. While it is prudent to have some provision for unanticipated expenditures, it can be done by maintaining ample fund balance, adopting a conservative budget or using reserves. Doing all three of these concurrently with growing fund balances may result in unnecessary increases in real property taxes.

## Recommendations

The Board and District officials should:

1. Ensure the amount of unassigned fund balance complies with the statutory limits and reduce the amount of surplus fund balance in a manner that benefits District residents. Such uses could include, but are not limited to:
  - Financing one-time expenditures;
  - Funding appropriate reserves; and
  - Reducing property taxes.
2. Adopt budgets with more realistic expenditure estimates based on prior year's actual results and anticipated operations to avoid raising more real property taxes than necessary, and

discontinue the practice of adopting budgets that result in the appropriation of fund balance that is not used to finance District operations.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



FOUNDATION  
for SUCCESS

**FRANKLIN SQUARE UNION FREE SCHOOL DISTRICT**  
DISTRICT OFFICES: WASHINGTON STREET SCHOOL  
760 Washington Street, Franklin Square, N.Y. 11010-3898

FAX No. (516) 505-6973

Mr. Patrick Manley  
Superintendent of Schools  
(516) 481-4100

June 16, 2016

Mr. H. Todd Eames, Chief Examiner  
Office of the State Comptroller  
State Office Building, Suite 1702  
44 Hawley Street  
Binghamton, NY 13901-4417

Dear Mr. H. Todd Eames:

The Franklin Square 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. While operating under the Tax Levy Limit Legislation the District has added such enhancements as a Prekindergarten Program, programs to increase small group instruction, a 1:1 computing initiative, new technology and infrastructure, common core aligned textbook series and a STEM learning lab. We have also consistently ranked as the lowest or second lowest per pupil expenditure amount in Nassau County each year. Additionally, we have received the best rating of "No Designation" on the Office of State Comptroller (OSC) Fiscal Stress Monitoring tool each year since its inception.

The years audited by the OSC, the 2014-15 and 2015-16 school year saw tax levy increases of 1.8 and 1.7% respectively. The most recently passed budget, 2016-17, carried a 0% tax levy increase.

**OSC Audit Recommendations:**

- 1) The Board and District Officials should ensure the amount of unassigned fund balance complies with statutory limits and reduce the amount of surplus fund balance in a manner that benefits District residents. Such uses could include but are not limited to:
  - a. Financing one-time expenditures
  - b. Funding appropriate reserves
  - c. Reducing property taxes

*District Response: With the approval of the Capital Reserve by voters on May 17, 2016 the District has completed the final step in a long term plan to reduce the unassigned fund balance. The creation of a Capital Reserve will allow the District to address major capital improvements in a manner that will not impact our budget or tax levy. In order to achieve this goal it was necessary for the District to allow fund balance to*

*exceed the statutory limit for a period of time while the planning phase was taking place.*

*Additionally, to address the specific recommendations set forth by OSC:*

- a. Financing one-time expenditures – The District makes every effort to avoid paying financing fees. We accomplish this goal through careful, multi-year financial planning.*
  - b. Funding appropriate reserves – The District has appropriately funded all of its legally approved reserves to their maximum levels.*
  - c. Reducing property taxes- The District has historically appropriated \$1,265,000 to the taxpayers annually in an effort to reduce property taxes. Additionally, the 2016-17 Budget, as approved by the voters on May 17, 2016, reduced the increase in property taxes to 0%.*
- 2) Adopt budgets with more realistic expenditure estimates based on prior year's actual results and anticipated operations to avoid raising more real property taxes than necessary, and discontinue the practice of adopting budgets that result in the appropriation of fund balance that is not used to finance District operations.

*District Response: The District makes every effort to develop budgets that will mirror actual expenditures as closely as reasonably possible. Unfortunately, due to the timing of the budget vote process, the District is often budgeting for expenditures before all relevant information about that expenditure is known. Examples include budgeting for health insurance and retirement expenditures before the related agencies finalize their premium costs, as well as, budgeting for staff before enrollment is finalized and budgeting for special education placements before the CSE has had the opportunity to determine the best placement for the child in the upcoming school year. Additionally, as the year progresses we are often faced with other unknown circumstances such as medical and maternity leaves, retirements and resignations. The District is continually seeking out more efficient ways to provide a service or obtain an item which can often result in a savings (surplus). The District has in the past and will continue in the future to make every effort to estimate these expenditures as accurately as possible. The most significantly overestimated expenditure as referenced in the OSC report was personnel service costs. OSC reports an overestimate of \$702,000. The total budget for the Personnel Services category was \$21,671,921. The surplus was largely driven by the unknown circumstances listed above of medical/maternity leaves, retirements and changes in enrollment and staffing. Recent negotiations resulted in changes to our collective bargaining agreements that will provide more clarity for budgeting purposes regarding maternity leaves and retirements.*

Sincerely,

Patrick Manley  
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 Board members and reviewed Board minutes to gain an understanding of the District's budget process, including the rationale for determining the amount of unrestricted fund balance available for appropriation and plans for funding and using reserves.
- We calculated the general fund's unrestricted fund balance as a percentage of the ensuing year's appropriations to determine if the District was within the statutory limit during the fiscal years 2012-13 through 2014-15.
- We calculated the results of operations for the fiscal years 2012-13 through 2014-15. We projected revenues and expenditures as of May 12, 2016 to June 30, 2016 to determine the projected results of operations.
- We compared the results of operations to the amount of appropriated fund balance to determine the amount that was used to finance operations for 2013-14 through 2015-16. We added the unused appropriated fund balance to the unrestricted fund balance to determine the additional percentage amount the District would have been over the statutory limit.
- We analyzed the general fund's reserves and related expenditures for the period July 1, 2012 through March 2, 2016 to determine if they were being used and reasonably funded.
- We compared the budgeted revenues and appropriations to the actual revenues and expenditures for the general fund for 2012-13 through 2014-15 to determine if the District's budget estimates were reasonable and if any specific lines were consistently over- or underbudgeted.
- We reviewed the District's real property tax levies for the 2012-13 to 2014-15 fiscal years to calculate the increases.

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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