



North Babylon Union Free School District Financial Condition

Report of Examination

Period Covered:

July 1, 2012 – October 31, 2015

2016M-32



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of District Officials and Corrective Action	2
FINANCIAL CONDITION	4
Fund Balance	4
Reserves	5
Recommendations	8
APPENDIX A Response From District Officials	9
APPENDIX B OSC Comments on the District's Response	16
APPENDIX C Audit Methodology and Standards	18
APPENDIX D How to Obtain Additional Copies of the Report	19
APPENDIX E Local Regional Office Listing	20

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 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 North Babylon 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 North Babylon Union Free School District (District) is located in the Town of Babylon in Suffolk County. The District is governed by the Board of Education (Board), which is composed of seven elected members. The Board is 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 District operates seven schools with approximately 4,900 students and 550 employees. The District's budgeted appropriations for the 2015-16 fiscal year were \$112,066,957 and were funded primarily with State aid, sales tax, real property taxes and grants.

Objective

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

- Did the Board and District officials ensure that budget estimates were reasonable and appropriately maintain reserve funds?

Scope and Methodology

We examined the District's financial condition for the period July 1, 2012 through October 31, 2015. We extended our scope forward to November 2015 for reserve fund Board resolutions.

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 C 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. Except as specified in Appendix A, District officials agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the District's response letter.

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 and Superintendent are responsible for making sound financial decisions that are in the best interests of the District, the students it serves and the taxpayers who fund its programs and operations. Reasonable fund balance management helps ensure that sufficient funding will be available to sustain operations, address unexpected occurrences and satisfy long-term operations or future expenditures, and that the tax levy is not greater than necessary. Prudent fiscal management also includes maintaining sufficient balances in reserves to address long-term obligations or planned future expenditures.

District officials employed budgeting practices that generated operating deficits but only used a fraction of the appropriated fund balance to fund operations. This resulted in fund balance appropriations that were not needed. As a result, during the 2012-13 through 2014-15 fiscal years, the District's unassigned fund balance was 9.65 to 12.34 percent of the ensuing years' budgets, while the statutory limit for fund balance is 4 percent. In addition, the Board transferred money to the District's reserves without calculations or justifications for the funding levels in the reserves and maintained balances in the unemployment insurance reserve and workers' compensation reserve that were excessive because those balances could fund related costs for 15 years and six years, respectively. These budgeting practices increase the risk that funds will not be used productively and that tax levies will be higher than necessary.

Fund Balance

The Board is responsible for preparing and presenting the district's budget for voter approval. In preparing the budget, the Board must estimate revenues (e.g., State aid), expenditures and the amount of unassigned funds that will be available at the end of the fiscal year, which may be used to at least partially fund the ensuing year's appropriations. After taking these factors into account, the Board should determine the expected tax levy that is necessary to fund operations. Accurate estimates help ensure that the tax levy is sufficient and reasonable.

Fund balance represents resources remaining from prior fiscal years. A district may retain a portion of fund balance at the end of the fiscal year for cash flow needs or unexpected expenditures. However, New York State Real Property Tax Law stipulates that unassigned fund balance not exceed 4 percent of the ensuing year's appropriations. Districts may establish reserve funds to restrict reasonable portions of fund balance for specified purposes that comply with statutory directives. However, District officials should not appropriate fund balance or establish reserves mainly to remove fund balance amounts from the calculation of the 4 percent statutory limit.

During the 2012-13 through 2014-15 fiscal years, the Board adopted budgets that included the use of unassigned fund balance to finance operations and increased amounts held in reserve funds. When fund balance is appropriated to finance operations, the District is expected to have a planned operating deficit. Although the Board's adopted budgets included the appropriation of fund balance aggregating to approximately \$27.45 million during those three years, the District's actual operating deficits resulted in the use of only \$3.75 million (13.7 percent) of appropriated fund balance to finance operations. Therefore, the District appropriated more than seven times the fund balance than was actually needed to finance operations for these three years. When unused appropriated fund balance was added back, the District's recalculated fund balance exceeded the 4 percent statutory limit, ranging from 9.65 percent (2012-13) to 12.34 percent (2014-15) of the ensuing year's budget (Figure 1).

Figure 1: Unassigned Fund Balance			
	2012-13	2013-14	2014-15
Reported Unassigned Fund Balance	\$4,435,050	\$4,508,465	\$4,482,678
Reported Fund Balance as a Percentage of Ensuing Year's Appropriations	3.96%	3.96%	4.00%
Add: Unused Appropriated Fund Balance	\$6,378,559	\$7,974,037	\$9,341,589
Recalculated Unassigned Fund Balance	\$10,813,609	\$12,482,502	\$13,824,267
Recalculated Fund Balance as Percentage of Ensuing Year's Appropriations	9.65%	10.96%	12.34%

Operating deficits were significantly less than planned because the Board overestimated expenditures when developing the District's budgets. The majority of overestimated expenditures were for instructional costs, by as much as \$4.1 million (6.8 percent); employee benefits, by as much as \$3.5 million (11.5 percent); and central services, by as much as \$885,058 (10.3 percent).

Figure 2: Overestimated Expenditures				
Fiscal Year	Budgeted Appropriations^a	Actual Expenditures^b	Overestimated Expenditures	Percentage of Overestimated Expenditures
2012-13	\$107,799,510	\$117,640,493	(\$9,840,983)	(9.1%)
2013-14	\$112,314,764	\$104,603,606	\$7,711,158	6.9%
2014-15	\$113,918,486	\$105,424,474	\$8,494,012	7.5%

^a Includes year-end encumbrances from the prior fiscal year
^b Includes year-end encumbrances

The Board's practice of consistently 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 unassigned fund balance.

Reserves

Reserve funds may be established by Board action, pursuant to various laws, to provide financing for specific purposes, such as

unemployment insurance and workers' compensation payments. The statutes under which reserves are established determine how the reserves may be funded, expended or discontinued. Generally, school districts are not limited as to how much money can be held in reserves, but they should maintain reserve balances that are reasonable. The Board should have a formal plan for the use of its reserves that includes how and when disbursements should be made, optimal funding levels and procedures to account for and monitor reserve activity and balances. Any interest earned on the money held in a particular reserve fund must be allocated to that reserve.

The District's five reserves have increased by approximately \$4.4 million, from approximately \$13.4 million to approximately \$17.8 million from 2012-13 through 2014-15. While District officials have established a formal plan stating the maximum funding of each reserve, how each reserve will be funded and when the reserve funds would be used, they did not provide any justification for the reserve funding levels. As a result, the District has retained excessive amounts in two of its reserve funds. Furthermore, the Board did not adopt resolutions authorizing the creation of these five reserves until November 2015.

The District funded its employee benefit accrued liability, insurance and retirement contribution reserves at reasonable levels. However, the amounts retained in the unemployment insurance and workers' compensation reserves totaling approximately \$4.7 million are excessive, with balances that could pay related costs for 15 and six years, respectively.

Unemployment Insurance Reserve — General Municipal Law (GML) authorizes school districts to create a reserve to reimburse the New York State Unemployment Insurance Fund (SUIF) for payments to claimants. If there are excess amounts after claims are paid and pending claims are considered, the Board can transfer all or part of the excess amounts to certain other reserve funds or apply all or part of the excess to the budgeted appropriations of the next fiscal year.

As of June 30, 2015, this reserve had a balance of \$823,197. From 2012-13 through 2014-15, the District paid a total of \$50,055 for unemployment reimbursements to the SUIF from this reserve, or less than half of the District's total reimbursements to the SUIF of \$162,784.

Although the District's use of these funds to make payments for unemployment reimbursements complied with legal requirements, the District may also have used these funds for ineligible purposes. In 2012-13, the District transferred \$844,650 out of the reserve to

the general fund for unemployment reimbursements to the SUIF. However, District officials paid only \$50,055 from the general fund to the SUIF and did not return the difference to the reserve. Because District officials have no calculations or justifications for this reserve's funding level, District officials have no assurance that this level of funding is necessary.

Given the District's average annual expenditures of \$54,261 paid to the SUIF, its current reserve balance is sufficient to pay these costs for more than 15 years. The District's written plan does not state why the Board feels that this level of funding is necessary, only that the reserve cannot exceed \$824,000.

Workers' Compensation Reserve — GML authorizes school districts to create a reserve to pay for workers' compensation benefits, including medical, hospital or other expenses; and expenses to administer a self-insurance program. According to GML, within 60 days of the close of the fiscal year, the District should transfer any excess in the reserve to another authorized reserve or use the excess to fund the workers' compensation appropriation in the succeeding fiscal year's budget.

As of June 30, 2015, this reserve had a balance of \$3,866,467. From 2012-13 through 2014-15, the District paid \$1.2 million for workers' compensation and related benefits from this reserve. Although the District's use of these funds complied with legal requirements, the District also used these funds for ineligible purposes. In 2012-13, the District transferred \$844,650 out of this reserve to the general fund to pay for workers' compensation benefits. However, the District actually paid \$606,846 and did not return the difference to this reserve, nor did it transfer the difference to any other reserve authorized by GML. As a result, \$237,804 was removed from the reserve for ineligible purposes.

Given the District's average annual expenditures of \$629,149 for workers' compensation benefits, its current reserve balance is sufficient to pay these costs for approximately six years. The District's written plan does not indicate why the Board feels that this funding level is necessary.

Interest — While GML does not require that reserve fund money be kept in a separate bank account, it does generally require that separate accounting records be kept for each reserve. In addition, any interest earned on reserve fund money must accrue to the reserve fund. Even if the reserve funds are commingled with other District moneys for investment purposes, each reserve fund must receive its prorated share of any interest earned on the total investment. The District invested its reserve fund money in the same bank accounts

as its general fund money but did not allocate the interest earned on the reserve fund balances to each reserve fund. Instead, all interest earned on the reserve fund balances was recorded in the general fund. The District recorded a total of \$169,345 in general fund interest for 2012-13 through 2014-15; more than \$80,000 of this amount was earned on reserve fund money. District officials stated that it is their practice to record interest for all idle funds to the same general fund revenue account.

By maintaining excessive reserves, combined with ongoing budgeting practices that generate smaller operating deficits than planned, the Board and District officials may be levying more taxes than necessary to sustain operations.

Recommendations

The Board should:

1. Adopt budgets that represent the District's actual needs, based on current information and historical trends of actual expenditures.
2. Review its policies on establishing and using reserve funds and ensure that they outline the need for established funding levels and the conditions under which the funds will be used or replenished.
3. Review all reserves and determine if the amounts reserved are necessary, reasonable and in compliance with statutory requirements.

District officials should:

4. Develop a plan for the use of the excess fund balance and reserve funds in a manner that benefits District residents. Such uses could include, but are not limited to:
 - Reducing real property taxes.
 - Increasing other necessary reserves.
 - Paying off debt.
5. Reduce the balances in the unemployment insurance reserve and workers' compensation reserve to levels that reflect realistic future expenditure needs.
6. Allocate all interest revenue to the appropriate reserve fund on which it was earned.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



NORTH BABYLON UNION FREE SCHOOL DISTRICT

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North Babylon, New York 11703

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Superintendent of Schools
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Salvatore Carambia
Deputy Superintendent of Schools
P:631-620-7025 F: 631-587-2619

Monday, April 18, 2016

Mr. Ira McCracken, Chief Examiner
Office of State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788

Re: North Babylon U.F.S.D. Response to Financial Condition Report of Examination
For the period of July 1, 2012 through June 30, 2015

Dear Mr. McCracken:

The North Babylon Union Free School District would like to thank the Comptroller's office for your efforts with this audit. It is the Districts' goal to implement the recommendations of the Comptroller's office where practicable and within a reasonable timeframe.

The District processes approximately \$8.9M in payroll and warrants monthly; we are pleased and proud of the fact that the auditors' review of our operations did not find any operational improprieties, fraud, waste or abuse.

The Board of Education and Administration of the District have worked very hard to develop budgets and manage the school finances under very difficult circumstances. We believe we have been transparent with the community, and that we have allocated our resources in a way that benefits our entire community. Therefore we must disagree with several of the comments in the report.

There are three significant areas that we disagree with that are indicated in the report:

Overestimating Expenditures:

As recommended by OSC and prudent fiscal processes, governments prepare budgets that contain funds for contingent expenditures. While reasonable people can disagree about the amount of contingencies that are appropriate in a school district budget, the OSC approach of calculating “overestimated expenditures” after the end of the fiscal year is not a fair calculation. Some or the entire amount of the “overestimated expenditures” is due to contingencies that were fortunately not necessary to be spent. This is fortunate because had these contingent funds been spent, our financial position would be significantly weaker than it is at this current point. The district views the savings of these contingent funds as having a positive impact on our financial stability and therefore a benefit to the taxpayer.

See
Note 1
Page 16

Prior to the 2015-16 school year the budget did contain significant budget amounts for contingencies. However, based on our review of recommendation from OSC reports on other school districts and our analyses of the District requirements, the Board of Education removed millions of contingent budget items from the 2015-16 budget. As a result, we anticipate that the actual results for 2015-16 will be much closer to the budget, and within OSC acceptable guidelines. Therefore, the District had already acted proactively to address the first recommendation of the OSC audit.

We should point out that at all times the District has been in compliance with the statutory limit that unassigned fund balance cannot exceed 4% of the subsequent year’s budget.

See
Note 2
Page 16

It is critical to understand that reduction of millions of contingent expenditures from the 2015-16 budget did not result in a reduction of tax levy because the District had not been annually taxing the community for these contingent expenditures. The District regularly utilized fund balance to substantially cover the contingent expenditures in the budget. We reject the conclusion in the report that “By maintaining excess reserves, combined with ongoing budget practices that repeatedly generate smaller operating deficits than planned... the Board and District officials may be levying more taxes than necessary to sustain operations.” We did not impose taxes on the taxpayer for these contingent costs.

See
Note 3
Page 16

Growth in Reserves

The report accurately points out the District’s 5 reserves have increased by approximately \$4.4M from 2012-13 to 2014-15. However, the report fails to recognize that this is simply due to the fact that the Board and Administration reduced the amount of Appropriated Fund Balance (primarily as a result of the reduction in contingent expenditures in the budget) used to support the contingent expenditures from \$9.0M to \$3.0M. The Board of Education authorized that these funds be reallocated from Appropriated Fund Balance to legally established reserves. Therefore, over the three year period our Reserves did increase, but this increase was not the result of operating surpluses (or “overtaxing”) but was due to a re-allocation of the Total Fund Balance.

See
Note 4
Page 16

The OSC report does not analyze our actual operating results and therefore does not recognize that our Total Fund Balance has decreased over the 3 year period by over \$3.7M.

See
Note 5
Page 16

The District has Over-taxed the community:

Since the inception of the tax cap our Board of Education twice put forth budgets to the community which were in excess of the tax cap limit. Both times the community voted to “pierce” the cap. We are grateful to the community for its continued support. The Board and Administration does not take this community support for granted, and therefore, we must respond to any suggestion that the Board missed opportunities to lower the tax levy.

Although the Comptroller’s calculation indicates that we are “overestimating expenditures” and that the district is “over reserved” we strongly feel it is also very important to include the following analysis of the **ACTUAL, audited** results for the period under review:

	Actuals EOY <u>6-30-2013</u>	Actuals EOY <u>6-30-2014</u>	Actuals EOY <u>6-30-2015</u>
REVENUES			
Real Property Taxes	\$ 58,319,832	\$ 60,331,439	\$ 61,460,703
Stated Aid	38,931,977	40,492,608	41,574,605
Other Income	<u>1,376,409</u>	<u>1,965,616</u>	<u>1,602,199</u>
Total Revenue	98,628,218	102,789,663	104,637,507
Total Expenditures & Transfers	100,264,659	104,530,626	105,010,918
Operating Surplus (Deficit)	\$ (1,636,441)	\$ (1,740,963)	\$ (373,411)
Total Fund Balance, start of year	\$ 29,498,419	\$ 27,861,978	\$ 26,121,015
Total Fund Balance, end of year	\$ 27,861,978	\$ 26,121,015	\$ 25,747,604
Net change in Fund Balance	\$ (1,636,441)	\$ (1,740,963)	\$ (373,411)

For each of the three years that the OSC reviewed the District operated at a **DEFICIT**. We spent more each year than we took in revenue. For the three year period covering July 1, 2013 to June 30, 2015 our Total Fund Balance has declined, starting at a balance of \$29.5M and ending at \$25.7M, a decrease of more than \$3.7M.

See
Note 5
Page 16

As can be seen, we have not added to our fund balance as the report implies. In fact, the Board has managed to judiciously use a reasonable portion of our fund balance to fund the actual expenditures each year. As a result, our Total Fund Balance has been reduced by (\$3.7M) over the past 3 years.

OSC has regularly warned districts about the perils of recurring expenditures exceeding recurring revenues, and it is not clear to us why the report does not contain such a warning. Recently, several

districts in New York State have learned what happens when operating deficits reduce total fund balance to inadequate levels. It puts the educational program of the district in a very perilous position. We believe that the difficulties facing our District are not that we are “over-reserved” or “overtaxing”, but that we cannot continue to use our remaining fund balance to help fund recurring expenditures. At some point we will be forced to bring our expenditures in line with available revenue.

The report indicates that we may be levying more taxes than necessary to sustain operations. Had we lowered the tax levy, the Operating Deficits and the resulting diminution of our fund balance would have been greater. It seems to us that OSC is recommending that we incur larger operating deficits than we have been willing to absorb. We reject this recommendation.

See
Note 6
Page 16

Other factors to be considered:

From July 2010 to June 2015, on average \$5.4M in GEA (Gap Elimination Adjustments) funds has been deducted annually from our state aid, which has put an additional strain on our financial condition. This totals over \$30M of state aid which was held from the district over this period of time. As of the 2015-16 fiscal year, the annual GEA reduction has been substantially eliminated which we have applied towards the budget. However, this does not change the fact that over the term of the GEA state aid was reduced by over \$30M. The following chart indicates the amount of State Aid the district has received since the year ending June 30, 2009. As you can see, state aid in 2015-16 school year is still less than what was received in 2009.

See
Note 5
Page 16

	Actuals <u>6-30-09</u>	Actuals <u>6-30-10</u>	Actuals <u>6-30-11</u>	Actuals <u>6-30-12</u>	Actuals <u>6-30-13</u>	Actuals <u>6-30-14</u>	Actuals <u>6-30-15</u>	Projected <u>6-30-16</u>
State Aid	\$45.7M	\$40.7M	\$ 39.4M	\$39.0M	\$38.9M	\$40.5M	\$41.7M	\$44.8M

An additional consideration related to our financial position is that for the past four years more than half of our bargaining units have been working without a contract, including the largest, our teachers unit. Not knowing the contractual cost for 6 bargaining units or approximately 80% of our budget makes it difficult to budget in a concise manner.

Staying within the tax cap has added a new dimension to budgeting; we are very limited in the amount we can raise to keep up with rising cost while maintaining programs, thus being at the cap we need the flexibility of having funds available in our budget.

It is only through a combination of “piercing the cap”; use of fund balance to support the budget, and careful management of expenditures has the district been able to maintain our educational programs and provide services required by unfunded state mandates. We reject any recommendations or implication that property taxes should have been reduced during the time period under review. Any reduction of taxes during the time period under review would have resulted in either a larger operating deficit and/or a reduction of services.

See
Note 7
Page 17

As we are all aware the upcoming 2016-17 tax cap limit is near a zero percentage increase which will put a further strain on our financial condition as our cost continue to climb at a higher rate than the North Babylon's tax cap limit of 0.29%.

Corrective Action Plan:

Recommendations

The Board should:

1. Adopt realistic appropriation estimates in the District's budgets.

Response: The Board of Education modified the 2015-16 budget to more accurately reflect planned expenditures and intends to continue this in the future.

2. Review its policies on establishing and using reserve funds and ensure that they outline the need for established funding levels and the conditions under which the funds will be used or replenished

Response: The Board and Administration will review policies and funding levels by December 31, 2016 and will revise the policy and reserve plan as necessary.

3. Review all reserves and determine if the amounts reserved are necessary, reasonable and in compliance with statutory requirements.

Response: The Board and Administration will review the amounts reserved to determine that they are in compliance with statutory requirements. This will be completed by December 31, 2016.

4. District officials should develop a plan for the use of the excess fund balance and reserve funds in a manner that benefits District residents. Such uses could include, but are not limited to:

- A) Reducing real property taxes
- B) Increasing other necessary reserves
- C) Paying off debts

Response: The Board and Administration will develop a plan for the use of any excess fund balance. This will be completed by December 31, 2016.

5. Reduce the balances in the unemployment insurance reserve and workers' compensation reserve to levels that reflect realistic future expenditure needs.

Response: The Board and Administration will review the amounts reserved in the unemployment and workers' compensation reserve to levels that reflect realistic future expenditure needs and this will be completed by December 31, 2016.

6. Allocate all interest revenue to the appropriate reserve fund on which it was earned.

Response: Administration will allocate all interest to the appropriate reserve fund during the preparation of the June 30, 2016 audited financial statements and thereafter.

Conclusion:

In closing we want to reiterate that that we **strongly disagree** with the following comments in the report:

1. The District's reserves have grown by \$4.4M. This is technically accurate but completely misleading. As indicated by our audit results there has been an actual **reduction** in fund balance of more than \$3.7M over the period of time reviewed by your office.
2. The District "may be levying more taxes than necessary to sustain operations". Had we lowered the tax levy the operating deficits and the reduction of our fund balance would have been greater than the amount we already experienced.
3. That the District has "overtaxed" the community. This is simply not the case, through a combination of "piercing the cap"; use of fund balance to support the budget, and careful management of expenditures the district has been able to maintain our educational programs and provide services required by our community.

See
Note 4 & 5
Page 16

See
Note 7
Page 17

See
Note 3
Page 16

Mr. Glen Eschbach
Superintendent of Schools

Jánet Meyerson
Board President

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

Because budgeting is not an exact science, most local governments are authorized to include an amount in their budgets for unforeseen circumstances. This amount is referred to as the contingency account and is subject to limitation established by various laws. However, Education Law does not contain provisions relative to a contingency account in school district annual budgets.¹ Budgeting for contingencies within budget line items reduces transparency. For example, the District's 2014-15 actual expenditures were nearly \$8.5 million less than budgeted. Further, although the District appropriated fund balance totaling \$27.45 million over three years to reduce its fund balance, it used only \$3.75 million.

Note 2

The District reported that fund balance was within the statutory limit because the reported fund balance was reduced by the amount of fund balance appropriated to fund operations. However, because the District actually needed only a fraction of the amount appropriated, the District's true unassigned fund balance ranged from nearly 10 percent to more than 12 percent of the ensuing year's budgets.

Note 3

The total appropriations in the budget represent the amount that is expected to be funded by sources including the appropriation of fund balance or the tax levy. When appropriations are unnecessarily inflated to budget for contingencies, the overall budget is too high. As a result, money accumulates in fund balance that could have been used to reduce the tax levy.

Note 4

Our report indicates that the amounts retained in the unemployment insurance and workers' compensation reserves, totaling approximately \$4.7 million, are excessive, with balances that could pay related costs for 15 and six years, respectively.

Note 5

While the District's overall fund balance may have decreased, our report focuses on the District's unassigned fund balance, unused appropriated fund balance and reserve balances. Although District officials discuss other factors that negatively affect the District's financial condition, they have been maintaining excessive reserves and generating smaller operating deficits than planned.

Note 6

As discussed in our report, the District's recalculated unassigned fund balance for fiscal years 2012-13 through 2014-15 ranged from 9.65 percent to 12.34 percent of the ensuing year's budget, which was well in excess of the 4 percent limit.

¹ <http://www.osc.state.ny.us/localgov/pubs/lgmg/budgetprocess.pdf>, page 8

Note 7

When District officials appropriate fund balance, they are telling the public they need the money to finance operations and they project an operating deficit equal to the amount of fund balance appropriated. To the extent that District officials appropriate more fund balance than they expect to need, they are not being transparent about the financial results they expect. For the last three years, District officials have appropriated more than seven times the amount of fund balance than was needed.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials and staff to obtain an understanding of District operations.
- We reviewed District policies and procedures and Board meeting minutes and resolutions to gain an understanding of the District's budget development, use of fund balance and reserves.
- We reviewed the District's annual financial statements for 2012-13 through 2014-15 and the accompanying management letters prepared by the District's independent public accountant.
- We compared the general fund's budgeted revenues and appropriations to actual revenues and expenditures for 2012-13 through 2014-15.
- We reviewed and analyzed fund balance levels in comparison to amounts appropriated in adopted budgets for 2012-13 through 2014-15.
- We reviewed reserve fund balances and activity to determine if reserve funds were adequately funded and complied with applicable laws.

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.

APPENDIX D

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APPENDIX E
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
Tracey Hitchen Boyd, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

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