Office of the New York State Comptroller

Division of Local Government & School Accountability

Brunswick Central School District

Financial Condition

Report of Examination

Period Covered:

July 1, 2010 — June 30, 2013

2014M-2

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

July 2014

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 Brunswick Central 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 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 Brunswick Central School District (District) is located in the Towns of Brunswick, Pittstown, Grafton, Schaghticoke and Poestenkill in Rensselaer County. The District is governed by the Board of Education (Board) which comprises nine 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 chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There are two schools in operation within the District, with approximately 1,200 students and 200 employees. The District's budgeted expenditures for the 2013-14 school year were approximately $21 million and were funded primarily with real property taxes, State aid and grants.

Objective

The objective of our audit was to assess the District's oversight of its financial operations. Our audit addressed the following related question:

- Did the Board properly manage District finances by ensuring that budgets are realistic and reserves are appropriately maintained?

Scope and Methodology

We examined the District's budgeting practices and reserves for the period July 1, 2010 through June 30, 2013.

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.

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 generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on issues raised in the District's response letter.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the 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 accurate estimates, coupled with reasonable fund balance management, ensure that sufficient funding will be available to sustain operations, address unexpected occurrences and satisfy long-term obligations or future expenditures. Accurate budget estimates also help ensure that the levy of real property taxes is not greater than necessary. Further, General Municipal Law (GML) authorizes the Board to set aside moneys in reserves; however, reserve balances must be reasonable. Funding reserves at greater-than-reasonable levels contributes to levying real property taxes that are higher than necessary.

The Board consistently and significantly over-estimated District expenditures from the 2010-11 through 2012-13 fiscal years, which caused the District to realize annual operating surpluses totaling approximately $1.5 million for this period. Each year, the District appropriated fund balance that it did not use. It then transferred surplus moneys to reserves at the end of the fiscal year, instead of appropriating funds to increase the reserve balances in the annual budgets. This increased the reserve balances while allowing the District to maintain its unexpended surplus fund balance[1] amount at the legal limit. Furthermore, in spite of the operating surpluses, the District raised the real property tax levy by an average of approximately $326,000 in each year of our audit period. When the District achieves annual operating surpluses, District officials should pass on the benefits of these surpluses to District taxpayers.

Budgeting

In preparing the general fund budget, the Board is responsible for estimating what the District will spend and receive in revenue (e.g., State aid) and how much fund balance will be available at fiscal year-end. To balance the budget, the Board also must determine what the expected tax levy will be. Accurate estimates help ensure that the levy of real property taxes is no greater than necessary. Real Property Tax

[1] The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted and unrestricted (comprising committed, assigned and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011, and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget (after Statement 54).

Law allows school districts to retain up to 4 percent of the ensuing year's budget as unexpended surplus fund balance. If a school district accumulates unexpended surplus fund balance that exceeds 4 percent of the ensuing year's budget, it should reduce the balance to an appropriate level by paying off debt, financing one-time expenditures, increasing or establishing necessary reserves at reasonable levels, or funding a portion of the following year's appropriations, thereby reducing the District property tax levy.

During the 2010-11 through 2012-13 fiscal years, the Board adopted budgets that included the use of surplus fund balance to finance operations. When fund balance is appropriated to finance operations, the District would normally incur a planned annual operating deficit. Although the Board's adopted budgets included the appropriation of fund balance during those three fiscal years, the District actually realized annual operating surpluses totaling $1.5 million in that period (Table 1). Therefore, the District did not actually use fund balance to finance operations.

Table 1: Results of Operations Compared to Appropriated Fund Balance

	2010-11	2011-12	2012-13	Totals
Budgeted Appropriated Fund Balance – Planned Operating Deficit	($565,000)	($685,868)	($550,000)	**($1,800,868)**
Actual Results of Operations – Surplus	$503,244	$333,056	$642,247	**$1,478,547**
Difference Between Actual Results and Adopted Budgets	$1,068,244	$1,018,924	$1,192,247	**$3,279,415**

These significant operating surpluses occurred because the Board repeatedly over-estimated expenditures when developing the District's budgets. However, the Board was able to provide generally realistic revenue estimates in these same budgets. We compared the District's budgeted and actual expenditures for fiscal years 2010-11 through 2012-13 and found that the District over-estimated expenditures by a combined total of $2.7 million in these budgets (Table 2).

Table 2: Over-Estimated Expenditures

Fiscal Year	Budgeted Expenditures	Actual Expenditures	Variance
2010-11	$21,370,821	$20,736,191	$634,630
2011-12	$20,443,609	$19,497,478	$946,131
2012-13	$20,432,126	$19,266,612	$1,165,514
Totals	**$62,246,636**	**$59,500,281**	**$2,746,275**

The over-estimated expenditures generally were spread throughout budget line items in the general fund. However, we found the largest variances between budgeted and actual expenditures in the following line items: medical insurance costs were over-estimated by a combined total of $614,699 for all three fiscal years, Social Security costs by $378,890, natural gas service by $304,633, New York State Teachers' Retirement System (Teachers' Retirement System) by $293,382 and New York State and Local Retirement System (NYSLRS)[2] by $222,440.

By over-estimating expenditures, the District was able to generate significant surpluses aggregating $1.5 million during our audit period. The consistent over-estimation of expenditures resulted in the District not using fund balance that was appropriated. Also, District officials funded certain reserves at greater-than-reasonable levels and, in some cases, did not pay related expenditures with those reserved moneys. These practices allowed District officials to maintain the District's fund balance within the 4 percent statutory limit while at the same time increasing its reserves. As a result, the Board and District officials have not accurately represented the District's funding of reserves to the taxpayers, and the District has levied and collected more taxes than necessary to fund District operations.

Reserves

Reserves may be established by the Board in accordance with applicable laws. Moneys set aside in reserves must be used only in compliance with statutory provisions which determine how reserves are established and how they may be funded, expended and discontinued. Generally, school districts are not limited as to how much money can be held in reserves; however, reserve balances should be reasonable. Fund balance provides a cushion against unforeseen events and economic fluctuations and provides cash flow during the year. The Board can restrict, or reserve, additional amounts of fund balance for particular purposes, or it can appropriate fund balance to reduce taxes. When District officials establish reserves for specific purposes, it is important that they develop a plan for how to fund the reserve, how much should be accumulated and how and when these moneys will be used to finance related costs. Such a plan serves to guide District officials in the accumulation and use of reserved funds and to inform District residents about the use of their tax moneys.

The District's reserves have grown from about $978,000 to more than $2.4 million in three years. Despite this substantial accumulation in reserves, District officials have not established a formal plan stating

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[2] NYSLRS, also referred to as the "Common Retirement Fund," comprises two different systems: the Employees' Retirement System and the Police and Fire Retirement System.

how much would be set aside in each reserve, how each reserve would be funded or when the balances would be used. Table 3 shows some of the largest increases that District officials made to the reserves during our scope period.

Table 3: Reserve Increases

Fiscal Year	Reserve	Beginning Balance	Year-End Balance	Increase
2010-11	Compensated Absences	$425,371	$808,839	$383,468
2011-12	Unemployment Reserve	$73,397	$554,397	$481,000
2012-13	Retirement Contributions	$294,625	$995,464	$700,839
Total				**$1,565,307**

Furthermore, the Board did not include an appropriation to fund these reserves in the annual budgets voted on by taxpayers. Instead, the Board funded reserves at the end of each year with the surplus funds generated by its budgeting practices.[3] Had District officials included transfers from the general fund to the reserves in the annual budgets, they could have funded these reserves in a more transparent manner that would have provided accountability to the taxpayers.

<u>Compensated Absences</u> – Local governments, including school districts, are required to measure and report liabilities for compensated absences (i.e., annual and sick leave). However, they are not required to fund the liability. GML allows local governments and school districts to establish an Employee Benefit Accrued Liability Reserve (EBALR) for the purpose of paying costs associated only with compensated leave paid directly to or on the behalf of employees when they separate from District employment. GML does not set a limit on the amount of funds a school district can maintain in an EBALR. However, the balance in this reserve must be reasonable.

During the 2010-11 fiscal year the District increased the reserve balance by $383,468 (90 percent), which increased this reserve's total balance to $808,839 as of the end of the fiscal year. This total reflected the District's liability for compensated absences as if each eligible employee[4] were to terminate service as of June 30, 2011. During the 2012-13 fiscal year, the District reduced this reserve's balance by approximately $90,000, leaving a balance of $718,667 which would cover the District's liability for compensated absences if every eligible employee were to separate from District employment

[3] Refer to the Budgeting section for further information.

[4] An employee's eligibility to receive a payout upon separation for compensated absences is governed by District Policy and collective bargaining agreements.

as of June 30, 2013.[5] It is unreasonable to assume that all eligible staff would separate from employment simultaneously at the end of a given fiscal year. District officials instead could use a methodology based on age and years of service for District staff members, among other criteria, to determine reasonable funding levels for this reserve.

During the past two fiscal years, the District paid out $49,662 in costs associated with compensated absences to employees who left District employment. However, District officials did not disburse these moneys from the compensated absences reserve. Instead, the Board funded this entire amount through general fund budgetary appropriations.

It is unclear why the Board funded this reserve while continuing to include costs related to compensated absences in the general fund budget and levy taxes to fund them. Because the reserve is funded at an unreasonable level and District officials are not paying related costs from this reserve, we question the level of funding for this reserve.

<u>Unemployment Insurance Reserve</u> – GML allows local governments and school districts to establish a reserve to reimburse the New York State Unemployment Insurance Fund (Insurance Fund) for payments made to claimants. Also, within 60 days of the end of the fiscal year, GML allows the District to transfer any moneys in excess of the payments required to be made to the Insurance Fund and any impending claims to other legal reserves or to the budgeted appropriations of the ensuing fiscal year.

During the 2011-12 fiscal year, the District increased the reserve balance by $481,000 and ended the year with a balance totaling $544,397. As of the end of the 2012-13 fiscal year, this reserve had a reported balance of $523,600. However, during the period from July 1, 2010 through June 30, 2013, the District incurred annual average unemployment insurance costs of only $26,847. Also, the District budgeted and paid for these expenditures from the general fund as routine operating costs, instead of disbursing these moneys from the unemployment insurance reserve.

If the average unemployment insurance costs remain the same, the reserve at its current funded level would be able to fund unemployment insurance costs for the next 20 years. Because the District does not pay its unemployment insurance costs from the reserve, the existence of this reserve, particularly with such a high balance, is questionable.

[5] The $90,000 reduction was an adjustment suggested by the District's independent audit firm to correct a previous overstatement of the reserve balance. As of June 30, 2013, the District's independent audit report included a long-term liability totaling $718,667 for compensated absences.

<u>Retirement Contribution Reserve</u> – GML allows local governments and school districts to establish a reserve for the payment of retirement contributions to NYSLRS. The moneys held in this reserve cannot be used for contributions the Teachers' Retirement System.

During the 2012-13 fiscal year, the District increased the reserve by $700,839 and ended the year with a balance totaling $995,464. For the period July 1, 2010 through June 30, 2013, the District's average annual expenditures to the NYSLRS were $368,382, and the reserve's average balance was $528,238. However, the District budgeted and paid for these expenditures from the general fund as routine operating costs, instead of disbursing these moneys from the retirement contributions reserve.

It is unclear why the Board funded this reserve while continuing to include costs related to retirement contributions in the general fund budget and levy taxes to fund them. Because the District is not paying related costs for its NYSLRS contributions from this reserve, we question the maintenance of this reserve if the District does not have plans to use a portion of the reserve proceeds to finance its NYSLRS contributions.

By maintaining excessive reserve balances, combined with ongoing budgeting practices that routinely generate operating surpluses, the Board and District officials have withheld significant moneys from funding general operations, levied higher-than-necessary taxes and reduced the transparency of District finances to the taxpayers.

Recommendations

1. The Board and District officials should develop and adopt budgets that include realistic estimates for expenditures based on current and historical data and discontinue the practice of adopting budgets that result in the appropriation of fund balance that will not be used.

2. The Board and District officials should review the appropriateness of the reserves and whether the balances of the reserves are reasonable. Any amounts determined to be excessive must be transferred out of the reserves in compliance with statutory requirements.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

BRUNSWICK CENTRAL SCHOOL DISTRICT
Brittonkill

June 6, 2014

[redacted]
NYS Office of the State Comptroller
Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls, NY 12801

Dear [redacted]

INTRODUCTION

Please accept this letter as the Brunswick Central School District's (the District) official response to the preliminary draft report related to your recent audit entitled "Brunswick Central School District, Financial Condition, Report of Examination, July 1, 2010 – June 30, 2013, 2014M-002".

In accordance with the Office of the State Comptroller's (OSC) publication, Responding to an OSC Audit Report: Audit Responses and Corrective Action Plans, the District's written response to your audit summarizes its position concerning your draft findings and recommendations. The District's response communicates what it thinks about those findings and recommendations; it is the District's reaction to the report, including whether the District is in agreement with the report findings. Because OSC includes the District's audit response in an appendix to the audit report, it also adds balance to the report, as readers will be informed of the District's perspective on OSC's findings and recommendations.[1]

The District is pleased to learn that your assessment of financial oversight, control environment, cash receipts and disbursements, purchasing, payroll and personal services, and information technology indicated that the District is in compliance in these areas and that weaknesses did not exist for potential fraud, theft, and/or professional misconduct.[2]

BACKGROUND

OSC's Multiyear Financial Planning publication recognizes the stress caused by structural imbalances between revenues and expenditures. It indicates that costs have been growing more quickly than revenues – that expenditure growth has averaged nearly twice the rate of inflation while revenues have grown at a

[1] The Office of the State Comptroller's publication, Responding to an OSC Audit Report: Audit Responses and Corrective Action Plans provides the following guidance in developing local government responses: "Your written response to your audit summarizes your local government's position concerning our draft findings and recommendations. Our draft report (or draft letter report) tells you what we found and what we recommend you do to improve. Your response communicates what you think about those findings and recommendations. It is your reaction to the report, including whether you are in agreement with the report findings. Because we include your audit response in an appendix to the audit report, it also adds balance to the report as readers will be informed of your perspective on your findings and recommendations."

[2] Appendix B, "Brunswick Central School District, Financial Condition, Report of Examination, July 1, 2010 – June 30, 2013"

slower pace, or in some cases, have declined. It cautions school districts and local governments against spending down reserve funds or using various one-time revenues to keep afloat. It stresses an effective multiyear planning process that helps identify and manage potential fiscal difficulties before crises emerge. It lists reserves and fund balances as helpful in enduring short-run fiscal pressures. It also stresses the need to be conservative. The District's position is that it has heeded this sound advice and instituted conservative budgeting practices to ensure fiscal stability even during unprecedented unstable economic conditions.

In summary, the District contends that numerous variables have proven its financial practices have—compared to similar and neighboring districts—generally protected it from the effects of the ongoing economic recession and the associated responses from the Federal and State governments. OSC has rated the District as having 0% fiscal stress during this period. The District has seen a reduction of $6.7 million in state aid over the past five years, a $109,000 increase in special education needs in 2014, an additional $99,297 workers compensation premium in 2013, paid off a $325,000 bond in 2013, financed numerous one-time infrastructure improvements (including a $60,000 computer classroom in 2013, a $100,000 capital outlay project in 2014, and architectural services to plan for a full capital project at a cost of $30,000 in 2014). The District expects financial impacts from the Affordable Care Act (especially the "Cadillac Tax") as well as continued high funding expectations for the Employee and Teachers Retirement System contributions. The District has effectively returned $3 million to taxpayers through reduced tax levy increases over the past five years. A Capital Reserve Fund was recently approved by District voters, which will allow for savings of up to $5 million over ten years.

See Note 1 Page 17

The letter accompanying the audit indicates it is a top priority of OSC to help school district officials manage their districts efficiently and effectively. However, with all due respect to the Office of the State Comptroller, the audit report contains a number of conclusions and broad statements that the District believes reflect subjective opinions of the Comptroller's Office with regard to the District's financial management specifically as it relates to financial planning and reserve funds. The District is committed through its budgetary practices and strategic planning to sustain and enhance the programs and educational initiatives that serve as the basis for the Board of Education's commitment to the students of our community. The goal of the District's fiscal plan is to continue to provide high-quality education programs, to be accountable to the District's taxpayers, and to maintain a financially healthy district over the long term.

To this end, the District has been conservative in its budgeting practices and will continue to approach this process conservatively. Such approach is crucial given the financial challenges faced by all school districts. Of utmost concern is the Gap Elimination Adjustment (GEA) imposed upon us by the State of New York. It is deplorable that the state has withheld over $6.7 million dollars from the District over the past five years. This is occurring at the same time that new mandates have been imposed regarding student achievement including the Common Core State Standards (CCSS) and associated student assessments, teacher/principal evaluations, and fiscal accountability measures. Also, Districts are extremely vulnerable to swings in special education services needs. During the 2013–14 school year, four additional students required outside placements that were not anticipated during the budget development process. This resulted in a budget shortfall of over $109,000 in the line item. In fact, for the past three summers, the District has had students move into the district that required (unbudgeted) out-of-district placements. Also, last year the District was faced with paying $99,297 for a workers compensation claim that exceeded the District's premiums since consortiums hold participants responsible for shortfalls. The District is currently concerned about a pending legal matter that may have significant financial implications. Additionally, districts are concerned about the mandate for electronic voting machines as well as the impact of the Affordable Care Act, especially the "Cadillac Tax". Given all of these challenges, the District has worked diligently to stay within the property tax cap each year. The recently enacted Property Tax Freeze puts additional pressure on all districts to continue to do so because it directly impacts how voters respond to proposed budgets.

See Note 2 Page 17

The Office of the State Comptroller's Financial Condition Analysis publication states:

Financial Condition may be defined as the ability of a local government or school district to balance recurring expenditure needs with recurring revenue sources, while providing services on a continuing basis. A community in good financial condition generally maintains adequate service level during fiscal downturns, identifies and adjusts to long-term economic or demographic changes, and develops resources to meet future needs.

The District's careful monitoring and efficient management resulted in budget surpluses of over $1.8 million during this three-year period that have been used to stabilize the tax rate and allowed us to add over $1.04 million to reserves. The District's five-year plan provides a capacity to sustain and enhance its educational programs without drastic increases in the tax levy.

The Fiscal Stress Monitoring System was recently developed by OSC in recognition of the new challenges local governments and school districts faced that threatened their fiscal health. It stresses the importance of fiscal health so school districts and local governments can finance services on an ongoing basis, meaning they can endure short-term financial pressures (such as revenue shortfalls or unanticipated expenditures). The District is pleased that their prudent fiscal planning resulted in a fiscal stress score of 0% by OSC.[3]

The above information is meant to provide readers with a true understanding of the District's philosophy regarding fiscal planning. This will provide the context for the District's response to specific concerns raised in the audit report.

RESPONSES TO SPECIFIC AUDIT REPORT FINDINGS

As part of a corrective action plan to this audit, the Board plans to adopt a reserve spend-down plan that will reduce the total reserve fund value by $1 million over five years. Although the Board has been working on the plan since 2013, the District was unaware that the plan needed to be formally adopted by the Board. This action item is a result of discussion in the exit conference.

The report indicates "The Board consistently and significantly over-estimated District expenditures from the 2010–11 through 2012–13 fiscal years, which caused the District to realize annual operating surpluses totaling approximately $1.5 million for this period." This amount represents an average of $500,000 per year. With District budgets during this period ranging between $20,432,126 and $21,370,821, this represents a budget variance of approximately 2 percent. The District does not consider a 2-percent budget variance to be a "significant" over-estimation. The ability to estimate budget appropriations with a 98-percent accuracy is an accomplishment in these uncertain fiscal times.

See Note 3 Page 17

The report indicates that although the District appropriated the use of fund balance to finance operations each year, the funds were not actually utilized. It is important to note that there are no requirements to use appropriated fund balance if it is determined not necessary. During this three-year period, revenues were sufficient to finance operations. As indicated earlier, the District's careful monitoring and efficient management have resulted in budget surpluses of over $1.8 million during this three-year period that has been used to stabilize the tax rate.

See Note 4 Page 17

The report also indicates that reserve funds were not utilized to pay related expenditures. It is important to note that there are no requirements—either in General Municipal Law or Education Law—to use reserve funds for related expenditures if it is determined not necessary. During this three-year period, revenues were sufficient to finance operations.

See Note 5 Page 17

With regard to reserves, the audit report indicates that generally school districts are not limited as to how much money can be held in reserves; however reserve balances should be reasonable and that fund balance provides a cushion against unforeseen events and economic fluctuations. It recommends the District establish a plan for reserves. The District's plan for reserves, which was discussed openly during

[3] Fiscal Stress Monitoring System, Brunswick Central School District, Office of the State Comptroller, Local Government and School Accountability

board meetings, was provided to examiners during their field work. However, this plan was disregarded by state examiners since the Board had not formally adopted it, although they did not suggest that the Board should adopt the plan while they were in the District. As indicated earlier, the District's careful monitoring and efficient management have resulted in budget surpluses of over $1.8 million during this three-year period that has been used to stabilize the tax rate and allowed the District to add over $1.04 million to its reserves. All reserves are within statutory limits.

See Note 6 Page 18

The audit report indicates that the Employee Benefit Accrued Liability Reserve is unreasonable. Based on General Municipal Law section 6-r, the reserve balance is reasonable since it does not exceed the estimated liability. The 2014–15 budgetary appropriations for employee benefits due to employees on termination has been reduced to $25,000. It is anticipated this amount will be eliminated entirely in subsequent years.

See Note 7 Page 18

With regard to the Unemployment Insurance Reserve, the initial draft report indicated that General Municipal Law *requires* the District to transfer any moneys in excess of required payments within 60 days of the end of the fiscal year. The District researched GML 6-m, Section 5, which indicates that the regulations *allow*, rather than require this. The District's plan for reserves includes reducing the amount in this reserve over the next four years and is included in the aforementioned reserve spend plan that will be formally adopted by the Board.

See Note 8 Page 18

The report questions the use of the Retirement Contribution Reserve. Shocking increases to New York State Local Retirement System rates (13-fold over 10 years) have caused school districts and municipalities to set aside funds for future years. The District believes unpredictability of rate increases warrant this practice. The District's plan for reserves includes reducing the amount in this reserve over the next four years and is included in the aforementioned reserve spend plan that will be formally adopted by the Board.

The audit report states:

> If a school district accumulates unexpended surplus fund balance that exceeds 4 percent of the ensuing year's budget, it should reduce the balance to an appropriate level by paying off debt, financing one-time expenditures, increasing or establishing necessary reserves at reasonable levels, or funding a portion of the following year's appropriations, thereby reducing the District property tax levy.

Prudent fiscal planning, careful monitoring and efficient management have allowed the District to do all of the following:

- On August 30, 2013 (while the examiners were in the District doing fieldwork), the District paid off bonds in the amount of $325,000 saving $96,020 in interest. The remaining bond balances of $6 million and $8 million are too high to consider this option.
- Last year the District allocated $60,000 for an elementary computer lab. The 2014–15 proposed budget includes $100,000 for a capital outlay project, $30,000 for capital project planning and $27,030 to purchase a small school bus, all with the utilization of fund balance rather than impacting the tax levy.
- The District has increased reserves to levels that will accomplish its long-term fiscal goals.
- On May 20, 2014, District voters approved a proposition to create a Capital Reserve fund. This will allow the District to set aside up to $5 million over ten years to address infrastructure needs, thus reducing the amount borrowed and, therefore, interest cost.
- Over the past five years, $3,050,868 was returned to taxpayers through reductions to the tax levy. When the Board approved the tax levy on August 15, 2013 (while examiners were in the district doing fieldwork), they allocated an additional $50,000 towards the tax levy, bringing the total allocated to $600,000. The 2014–15 proposed budget includes a fund balance allocation of $650,000 which is $50,000 more than the current year.

See Note 9 Page 18

CONCLUSION

During the exit interview, District Officials had the opportunity to question examiners regarding the basis for their findings and conclusions contained in the audit report. Their answers indicated that their conclusions were based on their professional judgment rather than regulations and statute. While the District is aware that Governmental Auditing Standards allow for professional judgment, it is important to note that the findings and conclusions stated in the audit report are not necessarily the same findings and conclusions that would be reached by others in the accounting practice. A lengthy discussion with the District's independent auditor indicated that, in their professional judgment, the District's use of reserves is reasonable and that the District is in compliance with legal requirements as required under GAAP financial reporting.

The District will consider the two recommendations contained in the audit report to determine how they may be utilized to further the goals of the District's fiscal plan to continue to provide high-quality education programs, to be accountable to the District's taxpayers, and to maintain a financially healthy district over the long term.

Please rest assured that the District will prepare a corrective action plan in response to the audit report in accordance with New York State Education Law and New York State Commissioner of Education regulations.

Sincerely,

Dr. Angelina Bergin
Superintendent

Mr. Matthew Wade
Board of Education President

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

In each of the three years of our audit period the District increased the tax levy by an average of $326,000 per year, from a total levy of $10,588,887 in the 2010-11 fiscal year to $11,566,766 in the 2013-14 fiscal year. The District consistently appropriated fund balance to finance operations in its annual budgets, which would normally result in the District realizing annual operating deficits and, in effect, returning money to the taxpayers. However, the District instead consistently realized significant operating surpluses, used the operating surpluses to increase reserve balances to unreasonable levels, and, in actuality, did not return any money to the taxpayers and raised more taxes than needed to fund operations.

Note 2

These are the same issues that all school districts face and deal with on a regular basis and do not justify the District's practice of adopting budgets with significant overestimations for expenditures, increasing the tax burden unnecessarily for District taxpayers and overfunding its reserves.

Note 3

The District's statement that the budget variance is approximately 2 percent is incorrect. Over the three fiscal years that we reviewed, actual expenditures were less than budgeted expenditures by a total of $2,746,275, or 4.4 percent. More specifically, in the 2012-13 fiscal year, total expenditures were $1,165,514 less than budgeted expenditures, or 5.7 percent less than what was estimated.

Note 4

The report does not state that there is any requirement to use appropriated fund balance. However, if District officials had budgeted reasonable amounts for appropriations and used the appropriated fund balance included in the budgets, the tax increases averaging $326,000 would not have been necessary.

Note 5

General Municipal Law and Education Law require reserve balances to be reasonable. Funding reserves at more than reasonable levels prevents taxpayer moneys from being used to fund regular and recurring operations. The District consistently raised moneys in its annual budgets to finance costs for which the reserve fund moneys could have been used. This budgeting practice is not in the best interests of the District's taxpayers.

Note 6

Our review of the minutes of 86 Board meetings held during our scope period identified four instances of specific discussions related to reserves, two of which were resolutions to increase reserves with minimal rationale for doing so in the minutes/resolutions. During field work, examiners held discussions with District officials to determine if there was a formal Board-adopted policy or Board action documenting the rationale for the balances in the reserves, the means of funding the reserves and the planned use of the reserves. There was no Board action related to future plans for reserves. District officials provided our examiners with a document during field work that provided information related to the reserve balances in question. However, this document did not provide any historical information on why the reserves were being funded to such large levels, and it did not provide any detail regarding when the reserves were going to be used to fund related expenditures in the future. The document describes a $200,000 projected decrease in the unemployment insurance reserve in 2014-15, followed by a $100,000 decrease in each of the three following years for this reserve. However, the District did not specify how, why or for what these moneys would be used. Also, it is unlikely the District will require $500,000 for unemployment costs in the next four years, considering its annual average unemployment costs are about $27,000 and it has been funding these expenditures with annual budgetary appropriations.

Note 7

As indicated in the report, over a two-year period the District paid $49,662 for compensated absences to employees who left District employment. Despite having a substantial balance in the EBALR reserve, the District used real property taxes to finance these costs. Having a balance of $718,667 in the reserve as of June 30, 2013 is excessive in comparison to the needs of the District.

Note 8

We have updated the final report to reflect this change. As indicated in the report, the District's average annual expenditure for unemployment benefits for the period July 1, 2010 through June 30, 2013 was $26,847. A reserve balance of $523,600 as of June 30, 2013 is unreasonable to fund this obligation because it is equal to almost 20 years of this average cost.

Note 9

During our audit period, the District did not reduce the tax levy. Instead, the tax levy increased from $10,588,887 in 2010-11 to $11,566,766 in 2012-13. The District has not used any of the appropriated fund balance to finance District operations. As a result, it has not returned any moneys to taxpayers.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, control environment, cash receipts and disbursements, purchasing, payroll and personal services and information technology.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft and professional misconduct. We then decided on the reported objectives and scope by selecting for audit those areas most at risk. We selected the District's financial condition for further audit testing.

To accomplish the objective of this audit and obtain valid audit evidence our procedures included the following:

- We reviewed Board minutes, audited financial statements, journal entries, internal financial reports, source documents, information on file with our agency and related correspondence,
- We reviewed and analyzed the reserve funds' account balances and expenditure trends, and
- We interviewed knowledgeable personnel including District management and staff to gain an understanding of the District's use of its reserves.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX D

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