



# East Meadow Union Free School District Financial Condition

## Report of Examination

Period Covered:

July 1, 2012 – August 31, 2015

2015M-332



Thomas P. DiNapoli

# Table of Contents

	Page
<b>AUTHORITY LETTER</b>	1
<b>INTRODUCTION</b>	2
Background	2
Objective	2
Scope and Methodology	2
Comments of District Officials and Corrective Action	2
<b>FINANCIAL CONDITION</b>	4
Fund Balance	4
Overestimated Expenditures	6
Reserve Funds	7
Recommendations	8
<b>APPENDIX A</b> Response From District Officials	10
<b>APPENDIX B</b> OSC Comments on the District's Response	15
<b>APPENDIX C</b> Audit Methodology and Standards	16
<b>APPENDIX D</b> How to Obtain Additional Copies of the Report	17
<b>APPENDIX E</b> Local Regional Office Listing	18

# State of New York Office of the State Comptroller

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

February 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 East Meadow 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 East Meadow Union Free School District (District) is located in the Town of Hempstead, Nassau County. The District is governed by the Board of Education (Board), which is composed of seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. This includes ensuring that the District maintains a sound financial condition. The Board President is the District's chief financial officer. The Superintendent of Schools is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction. These responsibilities include the development and administration of the budget.

The District operates nine schools with approximately 7,200 students and 1,117 employees. The District's 2014-15 general fund expenditures totaled approximately \$180.1 million, which were funded primarily with real property taxes and State aid. Budgeted appropriations for the 2015-16 fiscal year are \$195.8 million.

## Objective

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

- Did the Board and District officials effectively manage fund balance in the general fund?

## Scope and Methodology

We examined the District's financial records for the period July 1, 2012 through August 31, 2015.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix 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 indicated in Appendix A, District officials generally agreed with our recommendations and indicated they plan to initiate corrective action. Appendix B includes our comments on the District's response.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the

Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

## Financial Condition

The Board is responsible for making sound financial decisions that are in the best interest of the District, the students it serves and the taxpayers who fund the District's programs and operations. This responsibility includes appropriating fund balance only to the extent necessary to fund District operations, establishing a fund balance policy that meets statutory requirements, adopting budgets with realistic expenditure estimates and ensuring reserves are legally established and reasonably funded. Accurate budget estimates and the appropriate use of reserves help ensure that the real property tax levy is not greater than necessary and that the budget process is transparent. Any remaining fund balance, exclusive of the amount allowed by law to be retained to address cash flow and unexpected occurrences, should be used in the District's best interest.

The Board and District officials have not adequately managed the District's financial condition. The Board adopted budgets for fiscal years 2012-13 through 2014-15 that appropriated a total of \$49.6 million in fund balance to finance operations. Because the District consistently overestimated expenditures by a total of \$29.4 million over the three-year period, it used only \$11 million (22 percent) of the appropriated fund balance. In addition, the District's fund balance policy is not in compliance with statutory requirements. As a result, the District's unrestricted fund balance has exceeded statutory limits; it ranged between 5 and 6 percent of the ensuing year's appropriations in each of the last three fiscal years. When adding back unused appropriated fund balance, the District's recalculated unrestricted funds were 12 percent of the ensuing year's appropriations.

Furthermore, District officials did not have resolutions establishing eight reserve funds totaling \$17.6 million and overfunded the workers' compensation and unemployment insurance reserves. As of June 30, 2015, the workers' compensation reserve fund's \$2.8 million balance was sufficient to pay for associated costs for six years. The unemployment insurance reserve fund's balance of \$1.3 million was sufficient to pay for associated costs for 24 years.

### Fund Balance

Fund balance represents the cumulative residual resources remaining from prior fiscal years that can, and in some cases must, be used to finance operations in the ensuing fiscal year. The District may retain a portion of fund balance at year end, known as unrestricted fund balance, for cash flow purposes or unexpected expenditures. New York State Real Property Tax Law (RPTL) requires that unrestricted fund balance retained not exceed 4 percent of the ensuing year's

budgeted appropriations. Any excess amounts should be used to lower real property taxes, increase necessary reserve funds, pay for one-time expenditures or pay down debt. When fund balance is appropriated as a funding source, the expectation is that there will be a planned operating deficit in the ensuing fiscal year, financed by the amount of the appropriated fund balance. District officials should not appropriate more fund balance than is necessary to fund District operations.

Unrestricted Fund Balance – The Board adopted a fund balance policy in June 2011. However, the policy is not in compliance with statutory requirements. It requires the District to maintain unrestricted fund balance at no less than 4 percent of the estimated annual operating expenditures for the ensuing fiscal year. RPTL requires that unrestricted fund balance not exceed 4 percent of the ensuing year’s appropriations. As a result, the District has exceeded the 4 percent unrestricted fund balance limit for fiscal years 2012-13 through 2014-15. Unrestricted fund balance for the last three years ranged between 5 percent and more than 6 percent of the ensuing year’s budget, as indicated in Figure 1.

Figure 1: Unrestricted Funds at Year End			
	2012-13	2013-14	2014-15
Beginning Fund Balance	\$31,419,988	\$30,589,630	\$27,523,676
Less: Operating Deficit	(\$828,161)	(\$6,952,050)	(\$3,176,134)
Unrestricted Funds Subtotal	\$30,591,827	\$23,637,580	\$24,347,542
Less: Appropriated Fund Balance for the Ensuing Year	\$18,102,990	\$17,602,990	\$13,864,996
Less/(Plus): Transfers to/(from) Reserves	\$2,197	(\$3,886,096)	(\$2,766,810) <sup>a</sup>
Less: Encumbrances	\$651,870	\$331,612	\$1,380,209
Total Unrestricted Funds at Year-End	\$11,834,770	\$9,589,074	\$11,869,147
Ensuing Year's Budgeted Appropriations	\$188,239,972	\$191,128,156	\$195,844,798
Unrestricted Funds as Percentage of Ensuing Year's Budget	6.29%	5.02%	6.06%
<sup>a</sup> Includes an increase of \$36,974 of non-spendable from prior year			

Board members told us their philosophy is to use unrestricted fund balance as a “rainy day” fund for unforeseen expenditures and they have no plans to reduce the balance to within the statutory limit.

Appropriated Fund Balance – The Board appropriated fund balance to finance operations each year from 2012-13 through 2014-15. Although \$49.6 million of fund balance was included in the budgets as a financing source, the District used only \$11 million (22 percent) because expenditures were significantly overestimated for those years. Because the District overestimated expenditures in its adopted budgets, it experienced much lower than expected operating deficits and, therefore, did not need all of the appropriated fund balance



included in each year's budget. The District's practice of consistently planning operating deficits by appropriating unrestricted fund balance that was not needed further exacerbates the amount of unrestricted fund balance retained in excess of the statutory limit. When adding back unused appropriated fund balance, the District's recalculated unrestricted fund balance has averaged 12 percent of the ensuing year's budget, three times the legal limit, as indicated in Figure 2.

Figure 2: Unused Fund Balance			
	2012-13	2013-14	2014-15
Total Unrestricted Funds at Year End	\$11,834,770	\$9,589,074	\$11,869,147
Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget	\$11,150,940	\$14,426,856	\$10,212,881 <sup>a</sup>
Total Recalculated Unrestricted Funds	\$22,985,710	\$24,015,930	\$22,082,028 <sup>a</sup>
Ensuing Year's Budget	\$188,239,972	\$191,128,156	\$195,844,798
Recalculated Unrestricted Funds as Percentage of Ensuing Year's Budget	12.21%	12.57%	11.28% <sup>a</sup>
<sup>a</sup> Assumes an operating deficit in 2015-16 of \$3,652,115, the average deficit over the prior three years.			

Officials indicated that they plan to reduce the amount of appropriated fund balance in future budgets. They appropriated \$13.9 million for the 2015-16 school year, which is a decrease of \$3.7 million from the prior year. However, unless the planned deficit of \$13.9 million for the 2015-16 fiscal year actually materializes, unrestricted fund balance will remain in excess of statutory limits. During the last three completed fiscal years, the District has used an average of \$3.7 million of appropriated fund balance. If this trend continues, we estimate that about \$10.2 million of the appropriated fund balance for 2014-15 will not be used, resulting in a recalculated unrestricted fund balance of \$22.1 million, or 11 percent of the ensuing year's budget.

The District'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.

## Overestimated Expenditures

When preparing the budget, the Board must estimate revenues, expenditures and the amount of fund balance that will be available at year end, some or all of which may be used to fund the ensuing year's appropriations. Revenue and expenditure estimates should be developed based on prior years' operating results, past expenditure trends, anticipated future needs and available information related to projected changes in significant revenues or expenditures. Unrealistic budget estimates can mislead District residents and have a significant impact on the District's year-end surplus fund balance and financial condition.



We compared the District's budgeted revenues and expenditures with actual results of operations from 2012-13 through 2014-15. The District's revenue estimates were reasonable and generally close to the actual revenues received. However, general fund expenditures were less than budgeted appropriations for each year reviewed. District officials overestimated expenditures by \$29.4 million (5 percent) over that three-year period, as shown in Figure 3.

Figure 3: General Fund Expenditures - Budget vs. Actual				
	Budgeted Appropriations	Actual Expenditures	Overestimated Expenditures	Percentage
2012-13	\$184,854,290	\$175,268,607	\$9,585,683	5.2%
2013-14	\$188,239,972	\$179,385,801	\$8,854,171	4.7%
2014-15	\$191,128,156	\$180,142,127	\$10,986,029	5.7%
Total Expenditure Variance			\$29,425,883	5.2%

The majority of the overestimated expenditures were for regular instruction, medical insurance, social security and transportation. District officials overestimated regular instruction costs by \$8.1 million or 4.3 percent, medical insurance costs by \$3.2 million, or 5.7 percent, social security costs by \$3.2 million, or 13.5 percent and transportation costs by \$3 million, or 9.8 percent, for the three-year period. For example, although regular instruction costs have been no more than \$60 million in any of the years reviewed, estimates have been as high as \$62.7 million (4.5 percent more than actual costs), causing the gaps between estimated and actual expenditures to increase each year. Officials indicated that the regular instruction expenditure variance was due to teachers retiring unexpectedly and being replaced by teachers with significantly lower salaries. District officials indicated that, at the time they prepare the budget, they are unaware of how many teachers will be retiring in the following fiscal year.

As a result, the District spent an average of \$9.8 million or 5 percent less than planned each year. The practice of overestimating expenditures can be misleading to District residents and may result in the District's tax levies being higher than necessary.

## Reserve Funds

Fund balance may be restricted for particular purposes or appropriated to reduce the real property tax levy. Reserve funds may be established by Board action, in accordance with applicable laws, and only used to provide financing for specific purposes. When the Board establishes reserve funds, it is important it develops a plan for funding the reserves. This can be outlined in the resolution establishing each fund or in a written policy that communicates to taxpayers why the money is being set aside, the Board's financial objectives for the reserves, optimal funding levels and conditions under which the assets will be

utilized. Funding reserves at greater than reasonable levels essentially results in real property tax levies that are higher than necessary.

The District had eight<sup>1</sup> reserves with balances totaling \$17.6 million as of June 30, 2015. District officials could not provide Board resolutions, as required by applicable laws, establishing any of the eight reserves. Officials indicated that the establishment of the reserves predates the tenure of any of the members of the current administration and, therefore, they could not determine which Board minutes to search in. Further, the Board has not established a reserve fund policy. Although the Board's fund balance policy indicates that use of reserves will be evaluated on an annual basis depending on the District's needs and best interest, the policy does not communicate to District residents why money is being set aside, the Board's financial objective for the reserve funds and optimal funding levels.

Although District officials expended \$6.7 million from six of the reserves during the audit period, two of the District's eight reserves are overfunded. As of June 30, 2015, the workers' compensation reserve fund has a balance of \$2.8 million and the unemployment insurance reserve fund has a balance of \$1.3 million. However, the District's average annual workers' compensation and unemployment expenses for the last three years were \$425,660 and \$50,226. As such, the current reserve fund balances would pay for the District's workers' compensation costs for approximately six years and unemployment insurance costs for the next 24 years. District officials could not explain their basis for the balances maintained in these two reserves.

Without Board resolutions establishing the reserve fund or a comprehensive reserve fund policy, there is no assurance that reserves were legally established, are necessary and are reasonably funded. Lacking this key information, District residents do not have adequate assurances that resources are being used in the most efficient manner. As a result, District officials have overfunded reserves and may have missed opportunities to reduce taxes and operate in a consistent and transparent manner.

## Recommendations

The Board and District officials should:

1. Revise the District's fund balance policy to ensure compliance with statutory requirements.

<sup>1</sup> An employee benefits accrued liability reserve of \$5,220,238, a retirement contribution reserve of \$3,500,000, a workers' compensation reserve of \$2,835,712, a payment of bonded indebtedness reserve of \$2,544,801, an unemployment reserve of \$1,252,092, a repair reserve of \$1,110,312, a disability reserve of \$613,305 and a dental reserve of \$500,847

2. Use the surplus unrestricted fund balance in a manner that benefits District residents. Such uses could include, but are not limited to:
  - Establishing or increasing necessary reserves
  - Financing one-time expenditures
  - Reducing property taxes.
3. Discontinue the practice of adopting budgets that result in the appropriation of unrestricted fund balance not needed to fund District operations.
4. Adopt budgets with realistic expenditure estimates.
5. Ensure that all reserve funds are established by Board resolution that includes the financial objective for the reserve, optimal funding level and conditions under which each reserve fund will be utilized.
6. Use excess reserve funds identified to benefit District residents in accordance with statutory requirements.

**APPENDIX A**

**RESPONSE FROM DISTRICT OFFICIALS**

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



# East Meadow School District

Established in 1814

OFFICE OF THE SUPERINTENDENT OF SCHOOLS

LEON J. CAMPO  
Superintendent of Schools

February 11, 2016

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

Re: East Meadow UFSD Response to Financial Condition Report of Examination  
for the Period July 1, 2012 through August 31, 2015

Dear Mr. McCracken:

The East Meadow Union Free School District is grateful for the efforts expended in conducting an examination of our Financial Condition for the period July 1, 2012 through August 31, 2015. We are also appreciative of the recommendations made to improve our Financial Condition. Our intent is to follow through and implement the recommendations to the extent practicable within a reasonable timeframe. Indeed, since the receipt of your preliminary report, the District has undertaken a review of our budgetary reserves and fund balance practices with a view toward implementing positive change. Our goals, stated in our Corrective Action Plan, clearly indicate our intent to comply with statute, regulations and constructive recommendations.

The District is proud that the thorough job done by auditors from your office yielded no operational improprieties, no fraud, no waste, and no abuse. Rather, the focus of the examination was our Financial Condition, after which your auditors made valid recommendations pertaining to fund balance, budgeting of expenditures, and reserves.

Before addressing the Corrective Action Plan, we would be remiss if we did not place into context the political, financial and legislative challenges which affect our budgetary planning as we strive to protect our taxpayers, residents and students. The current challenges are significant and require our best judgment and decision making.

Tax Cap – The “tax cap” initially limited the District’s ability to correct year-to-year financial imbalances through taxation. The tax cap under current conditions may eliminate completely the ability of the District to increase reserves through taxation. The result, lacking a political correction, renders the fate of our school program for children entirely under the control of the governor and the state legislature. Without significant

1 | Page

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increases in state aid, over which the District has no control, and with limited taxing authority, the only defense of our student programs is Fund Balance. Under these circumstances, it is conceivable that our public school system, together with others throughout New York State, will be dismantled to the detriment of the children. The District believes it did not ask the taxpayers for one dollar more than was necessary to efficiently operate the District with no loss to any of its outstanding programs. In fact, in the first two years of the imposition of the tax cap, the District did not increase the tax levy by the maximum amount that could have been levied. In the 2012-2013 school year, the District asked for \$1,203,192 less than the maximum allowable tax levy. Likewise, in the 2013-2014 school year, the District asked for \$3,514,700 less than the maximum allowable tax levy. Again, in the 2014-2015 school year, the District asked the taxpayers for \$464,568 less than the maximum tax levy. The decision of District officials and the Board of Education to forego the cumulative sum of \$5,182,460 was made in consideration of the taxpayers and was conveyed to the taxpayers during the budget presentations in order to be transparent.

See  
Note 1  
Page 15

Fund Balance – As stated above, severely limiting or eliminating the tax increase resource of our school system will reduce and potentially eliminate the Fund Balance. As is evident from the analyses performed by your auditors, the District has offset its Operating Deficits each of the last three years with those very reserves for which it is being criticized. For East Meadow Schools, we project the depletion of this resource within six years. We understand that statute requires a balance of not more than 4%. In historic terms, this statutory cap has fluctuated, with little thought as to the true challenges facing our schools. In addition, as can be seen from Figure 1 of the auditors' report, the reliance of the District on the Appropriated Fund Balance for the Ensuing Year has decreased dramatically, with a modest 2.76% decrease from 2012-2013 to 2013-2014 to a staggering 21.23% decrease from 2013-2014 to 2014-2015. Again, the intent is to decrease the District's reliance on Appropriated Fund Balance to the benefit of the taxpayer.

See  
Note 2  
Page 15

See  
Note 3  
Page 15

State Aid – The East Meadow School District, based on preliminary data, is among three schools systems scheduled to receive less aid in the 2016-2017 school year as compared to the 2015-2016 school year. With little or no revenue increase from taxation and a decrease in State Aid, Fund Balance will shrink. Once gone, programs will be dismantled.

Expenses – To the extent practicable, East Meadow Schools strives to control costs. Budgets, proposed a year in advance of actual expenditures, may underestimate or overestimate an actual cost. At the time of expenditure, justification is required. If the District routinely spent 100% of its projected expense budget, a practice which is not endorsed by any governmental agency, we would correctly be accused of mismanagement. The addition of full-day kindergarten, encouraged by New York State through a one-time offer of State Aid, adds approximately \$2 million per year to operating costs commencing in the 2016-2017 school year. The new English as a New Language ("ENL") unfunded mandate will increase expenses in the 2016-2017 school year and beyond by more than \$500,000 per annum. On the positive side, reduced assessments to the New York State Retirement Systems will benefit our school community. However, historically, retirement system assessments have been subject to incredibly great fluctuations over which the District has no control. These enormous swings in assessments greatly impact expenses and, therefore, the entire budgetary process. Recent information suggests that the Comptroller's goal of a 7% return on

retirement systems investments will not materialize during the current business cycle. Will East Meadow Schools be subject to an increased assessment of unknown proportions?

Uncertainties – The federal mandate for health insurance, under the Affordable Care Act, may require the district to extend new coverage to specific classes of employees and/or face huge financial penalties. This uncertainty is revisited on a year-to-year basis. In addition, the Federal Government, in response to parent/student “opt-outs” has threatened the public schools with a loss of Title I and other essential aid in the approximate annual sum of \$400,000. New York State has threatened the loss of approximately \$2 million in State Aid if opt-outs exceed 5% of potential test takers. In 2014-2015, the District’s opt-out rate was 24%. The District has no control over this issue. However, it is anticipated that the opt-out rate for 2015-2016 will exceed 5%. Will the District lose this critical aid? How will vital student programs be saved? Uncertainties that translate into increased expenses or a loss in revenue can only be offset by taxation, which is not possible under the tax cap, and/or by elimination of student programs and the excessing of staff. Lastly, the Gap Elimination Adjustment, implemented by the governor years ago to balance the New York State budget, has taken \$25.6 million dollars from East Meadow Schools over the last six years, with another \$1.7 million projected to be taken from the District in the 2016-2017 school year. From what source is the District expected to make up these differences?

For the 2016-2017 school year, our expense budget, despite all of the unavoidable challenges discussed above, will decrease by \$550,423. We believe this is a noteworthy accomplishment.

While developing the Corrective Action Plan that is outlined in this document, the District stands behind its long history of proposing fiscally responsible and defensible operating budgets. This stance has positioned the District to allow our school system to maintain successful academic and co-curricular programs during this most challenging financial period. The uncertainty of funding from New York State, the burden of the tax cap, and the plethora of unfunded mandates has made many Districts suffer under the weight of these unforeseen challenges.

#### Corrective Action Plan

As stated above, the District thanks the Office of the State Comptrollers' auditors for the recommendations they have made to improve the policies and practices of the District so that we may be compliant in all cases. Therefore, the District's Corrective Action Plan, in the order of recommendations received in the report, is as follows:

- 1) Revise the District’s fund balance policy to ensure compliance with statutory requirements.** - The Board of Education will be presented with a revision to Policy # 6245 by the Assistant Superintendent for Business and Finance prior to the end of this fiscal year.
- 2) Use the surplus unrestricted fund balance in a manner that benefits District residents. Such uses could include, but are not limited to: establishing or increasing necessary reserves, financing one-time expenditures, or reducing property taxes.** - District officials will present recommendations to the Board of



Education with an eye toward reevaluating existing reserves or financing one-time expenditures. It is a little-known fact that, when a school district asks Nassau County for a certain increase in the property taxes in a given year, it is Nassau County - not the school district - that decides how the amount requested by the school district will be divided among the four classes of properties. Therefore, stating that the use of the surplus would be to reduce property taxes does not often equate to a reduction for the homeowners.

**3) Discontinue the practice of adopting budgets that result in the appropriation of unrestricted fund balance not needed to fund District operations.** - As mentioned previously, it has been the goal of District officials and the Board of Education to reduce its reliance on Appropriated Fund Balance and this practice will continue in the formulation of future budgets.

**4) Adopt budgets with realistic expenditure estimates** - It has, and will continue to be, the practice of the District to be conservative when estimating certain expenditures over which the District has little or no control, such as Special Education and Transportation. District officials have already taken steps to implement this recommendation when formulating the 2016-2017 budget which has just been presented to the Board of Education for its review. This practice will continue in future budget formulations.

**5) Ensure that all reserve funds are established by Board resolution that includes the financial objective for the reserve, optimal funding level and conditions under which each reserve fund will be utilized.** - District officials are preparing a resolution for presentation to the Board of Education prior to the fiscal year end that outlines all of the reserves currently funded with the information suggested. This resolution will then be placed in a permanent file that will be available to any agency that comes to the District requesting same in the future.

**6) Use excess reserve funds identified to benefit District residents in accordance with statutory requirements.** - The District is truly thankful to the auditors for their guidance in referring us to the guidance document titled "Reserve Funds" which outlines the ability of a district to be able to transfer funds between reserves in order to maintain balance in funding practices. These changes will be made prior to the end of the fiscal year, with full disclosure and approval of the Board of Education.

In conclusion, the District and the Board of Education wish to thank the auditors for their recommendations and are committed to ensuring continued compliance and transparency to the members of the East Meadow community.

Very truly yours,

Lector J. Campo  
Superintendent of Schools

cc: East Meadow UFSD Board of Education

## **APPENDIX B**

### **OSC COMMENTS ON THE DISTRICT'S RESPONSE**

#### **Note 1**

District officials overestimated appropriations by \$29.4 million from fiscal years 2012-13 through 2014-15 and included \$49.6 million of fund balance in the budgets as a financing source. However, because the District consistently overestimated appropriations, it used only \$11 million (22 percent) of the appropriated fund balance. These budgeting practices resulted in tax levies that were higher than necessary.

#### **Note 2**

Real Property Tax Law requires that unrestricted fund balance not exceed 4 percent of the ensuing year's appropriations. This statutory maximum has been in place since July 2008.

#### **Note 3**

Routine use of one-shot revenues, such as appropriated fund balance, should not be relied upon to balance annual budgets. Further, because District officials overestimated budgeted appropriations, they did not need 78 percent of the appropriated fund balance to finance operations. It would have been more beneficial to taxpayers for District officials to develop more accurate estimates during the budget process.

## **APPENDIX C**

### **AUDIT METHODOLOGY AND STANDARDS**

The objective of our audit was to evaluate the District's financial condition for the period July 1, 2012 through August 31, 2015. To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed Board members and District officials to gain an understanding of the District's budgeting practices and use of fund balance.
- We reviewed District policies related to unrestricted fund balance, reserves and budgeting.
- We performed a trend analysis for the District's fund balance, appropriated fund balance, and revenue and expenditure variances during the last three years.
- We interviewed District officials and requested Board resolutions to determine if reserves were legally established, the Board's financial objectives for the reserves, optimal funding levels and conditions under which the assets will be utilized.
- We compared reserve amounts at year end to associated annual expenditures or liability amounts to determine if reserve balances appeared reasonable.
- We reviewed documentation to ensure reserves were adequately accounted for and cash was restricted.

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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