

# Mineola Union Free School District

## Financial Condition Management

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**SEPTEMBER 2021**

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OFFICE OF THE NEW YORK STATE COMPTROLLER  
**Thomas P. DiNapoli, State Comptroller**

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# Report Highlights

## Mineola Union Free School District

### Audit Objective

Determine whether the Mineola Union Free School District's (District) Board of Education (Board) and District officials effectively manage the District's financial condition.

### Key Findings

The Board and District officials did not effectively manage the District's financial condition. As a result, more taxes were levied than were needed to fund operations.

- A pattern of over budgeting developed because the Board did not adjust ensuing years' budgets based on prior years' actual results. Therefore, general fund appropriations were consistently overestimated from 2016-17 through 2019-20 by a total of \$20.7 million.
- Over the four-year audit period, the Board consistently appropriated fund balance totaling \$12.9 million that was not needed. When unused appropriated fund balance is added back, at June 30, 2020, unassigned fund balance increased to approximately 13 percent or about nine percentage points above the 4 percent legal limit.

### Key Recommendations

- Develop budgets that include reasonable appropriation estimates, and only appropriate fund balance when needed.
- Comply with the statutory fund balance limit.

District officials agreed with our recommendations and indicated they are taking corrective action.

### Background

The District is located in the Town of North Hempstead in Nassau County.

The elected five-member Board is responsible for managing the District's financial and educational affairs.

The School Superintendent is responsible for the District's day-to-day management and budget development.

The Assistant Superintendent for Finance and Operations is responsible for the District's business operations.

### Quick Facts

For the 2019-20 Year:

General Fund Expenditures	\$89.7 million
General Fund Balance	\$16.2 million

### 2016-17 to 2019-20 Year End Results Budgeted Deficit to Actual Results

Fiscal Year	Budgeted Deficit	Actual Results	Variance
2016-17	(\$900,000)	\$5,054,657	\$5,954,657
2017-18	(\$3,000,000)	\$5,283,723	\$8,283,723
2018-19	(\$4,500,000)	\$4,964,170	\$9,464,170
2019-20	(\$4,500,000)	\$6,938,451	\$11,438,451

### Audit Period

July 1, 2016 – June 30, 2020

# Financial Condition Management

## What Is Effective Financial Condition Management?

To effectively manage financial condition, a board should adopt reasonably estimated and structurally balanced budgets based on historical data or known trends, in which recurring revenues finance recurring expenditures. In preparing the budget, a board and district officials must estimate the amounts a district will spend and receive and the amount of fund balance that may be available at fiscal year-end to determine the expected tax levy. Accurate budget estimates help ensure that the real property tax levy is enough to fund operations but not greater than necessary.

Fund balance represents the cumulative residual resources from prior fiscal years. School districts are currently limited to the amount of surplus fund balance that they can retain to no more than 4 percent of the next year's budget. When fund balance is appropriated for the ensuing year's budget, the expectation is that there will be a planned operating deficit equal to the amount of fund balance that was appropriated. Additionally, a board should adopt a fund balance policy to ensure sufficient funding for necessary operations is available and that the real property tax levy is not greater than necessary.

## The Board and District Officials Overestimated Appropriations and Appropriated Fund Balance That Was Not Needed

We compared appropriations and estimated revenues in the adopted general fund budgets with actual revenues and expenditures for 2016-17 through 2019-20 and found that revenue estimates were generally reasonable. However, the Board adopted general fund budgets that overestimated appropriations over the last four years, spending \$20,693,943 (5.5 percent) less than budgeted (Figure 1).

**Figure 1: General Fund Budget-to-Actual Comparison**

	2016-17	2017-18	2018-19	2019-20	Total Budget Variances
<b>Appropriations</b>	\$90,426,774	\$90,872,553	\$94,790,558	\$96,705,111	\$372,794,996
<b>Actual Expenditures</b>	\$85,388,617	\$87,608,198	\$89,438,109	\$89,666,129	\$352,101,053
<b>Variance</b>	\$5,038,157	\$3,264,355	\$5,352,449	\$7,038,982	\$20,693,943
<b>Percentage Variance</b>	5.6%	3.6%	5.6%	7.3%	5.5%

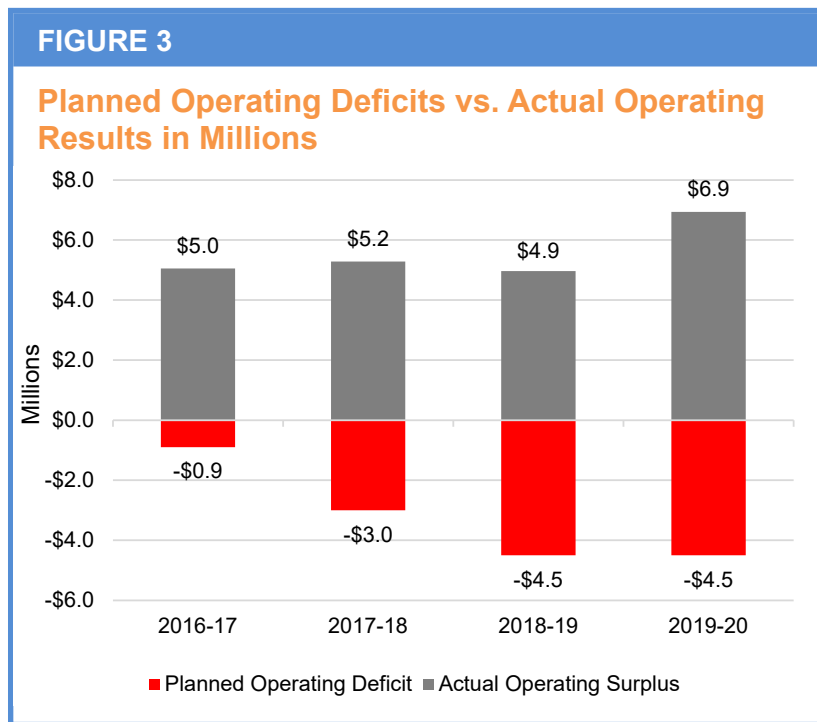
We reviewed the District's budget status report for fiscal years 2016-17 through 2019-20 and found that the District consistently overestimated certain appropriations. While these variances individually (see Figure 2) may appear small, in aggregate they resulted in a material operating surplus (\$17.8 million) and helped increase the fund balance over the past several years. District officials

told us that they used the best information they had available at the time of budget preparation. This surplus was used toward funding capital projects.

**Figure 2: Overstated Appropriations 2016-17 to 2019-20**

Appropriation	Overestimated	
	Percent	Dollars
<b>Programs - Students with Disability</b>	10.8%	\$4,760,535
<b>Teaching Regular</b>	2.3%	\$2,598,929
<b>Hospital Medical and Dental Insurance</b>	7.7%	\$3,698,068
<b>Maintenance of Plant</b>	12.9%	\$1,935,901
<b>Computer Assisted Instruction</b>	8.5%	\$1,051,273
<b>Teacher Retirement</b>	12.1%	\$2,133,444
<b>New York State Employees Retirement</b>	21.0%	\$1,662,729
<b>Total</b>		<b>\$17,840,879</b>

Because the Board did not adjust ensuing years' budgets based on prior years' actual results, a pattern of over budgeting developed. The District generated unbudgeted operating surpluses totaling \$22.2 million for the four years reviewed (averaging more than \$5 million per year), instead of the deficits budgeted (Figure 3). Due to the repeated operating surpluses, the District did not need to use the appropriated fund balance included in the budgets, totaling \$12.9 million.



Even with the impact of the COVID-19 pandemic (pandemic), which caused substantial changes to the District's programs and operations starting in March 2020, the District ended the fiscal year with an operating surplus of more than \$6.9 million. Based on our review of

the 2019-20 budget and year-to-date operating results as of December 31, 2020, we project that the District will generate another operating surplus in 2020-21 and will not need to use the \$3.5 million fund balance appropriated in the budget.

We discussed our projections with District officials on March 11, 2021 and they indicated they agreed that the District will likely generate an operating surplus in 2020-21, even when considering the pandemic’s financial impact. Therefore, the District likely will not use the \$3.5 million appropriated fund balance as planned in the original budget.

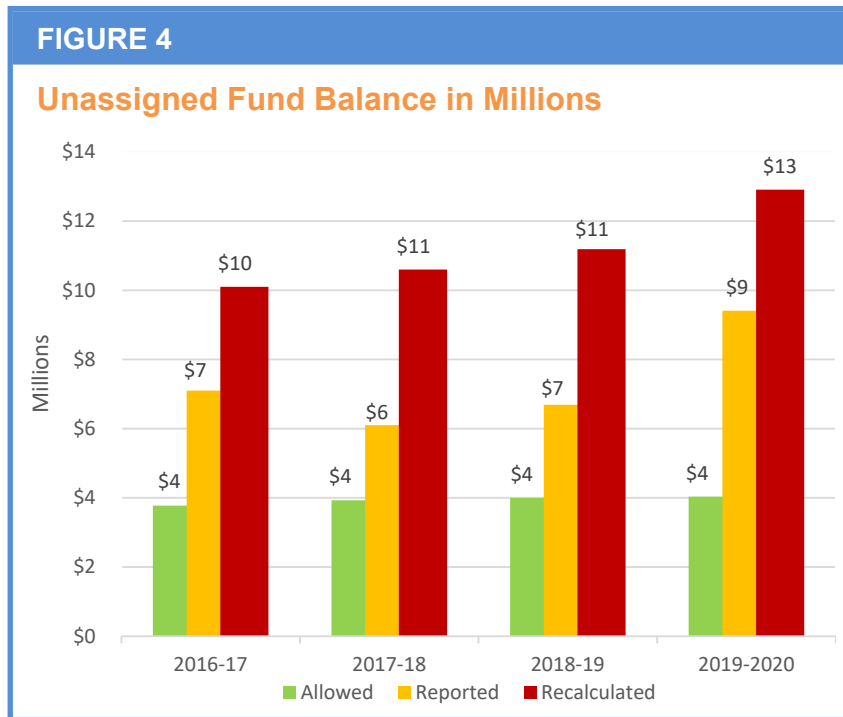
### The Board Exceeded the Statutory Limit for Unassigned Fund Balance

The Board’s Budget Planning and Development policy requires surplus funds in excess of the statutory limit to be reserved as appropriate or used to determine the tax levy. The District’s reported unassigned fund balance in the general fund exceeded the statutory limitation of 4 percent from 2016-17 through 2019-20. The reported unassigned fund balance ranged from 6.2 percent to 9.3 percent (Appendix A, Figure 5).

When unused appropriated fund balance is added back, the recalculated unassigned fund balance exceeds the statutory limit of 4 percent by as much as 8.8 percentage points (Appendix A, Figure 5), or \$9 million as shown in Figure 4. District officials told us they are using the excess fund balance amounts toward

District-wide capital projects. These projects are planned as part of the 2021-22 fiscal year’s budget.

Annually appropriating fund balance that is not needed to finance operations is, in effect, a reservation



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of fund balance that is not provided for by statute and circumvents the statutory limit imposed on the level of unassigned fund balance. By maintaining unassigned fund balance in excess of the statutory limit, District officials are withholding funds from productive use which results in real property tax levies that are higher than necessary.

## **What Do We Recommend?**

The Board and District officials should:

1. Develop and adopt budgets that include reasonable estimates for expenditures based on historical trends, identified analysis, or other known factors, and only appropriate fund balance that will be used to fund operations.
2. Develop a plan to reduce surplus fund balance to comply with the statutory limit and use excess funds in a manner that benefits District taxpayers. Surplus fund balance can be used as a funding source for:
  - Funding one-time expenditures,
  - Funding needed reserves,
  - Paying off debt and
  - Reducing District property taxes.

## Appendix A: Fund Balance Chart

**Figure 5: Unassigned Fund Balance and Statutory Limit**

	2016-17	2017-18	2018-19	2019-20
Reported Year-End Unassigned Fund Balance	\$7,099,790	\$6,100,504	\$6,691,326	\$9,407,787
Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget	3,000,000	4,500,000	4,500,000	3,500,000
<b>Total Recalculated Unassigned Fund Balance</b>	<b>\$10,099,790</b>	<b>\$10,600,504</b>	<b>\$11,191,326</b>	<b>\$12,907,787</b>
Ensuing Year's Budget	\$94,444,259	\$98,195,200	\$99,955,750	\$100,859,780
Reported Unassigned Fund Balance as Percentage of Ensuing Year's Budget	7.52%	6.21%	6.69%	9.33%
<b>Recalculated Unassigned Fund Balance as Percentage of Ensuing Year's Budget</b>	<b>10.69%</b>	<b>10.80%</b>	<b>11.20%</b>	<b>12.80%</b>



# Appendix B: Response From District Officials

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Aug 3, 2021

Unit Name: Mineola UFSD  
Audit Report Title: Financial Condition Management  
Audit Report #: 2021M-44

## **District Response to Audit Recommendations and CAP Template**

In 2010, the Mineola UFSD's Board of Education made the painful decision to close two elementary schools. This decision was the last resort after the District continued to face yearly budget spikes despite cost cutting measures which included laying off staff and cutting programs for students. The community's decision to close schools has allowed the District to reinvest those savings to accomplish:

- Maintain a stable tax levy that avoids spikes and continues to be below the Nassau County average. Over the last 12 years our levy averaged a predictable and low rate of 1.32% a year, including a 0% levy increase this year.
- Identify and conduct extensive building repairs and capital upgrades using excess fund balances by making yearly transfers to capital lines in our annual budget. This is a transparent process involving numerous public budget presentations and has been overwhelmingly supported by the public through the budget vote process. Over the last 8 years, the District has averaged 75% pass rate for our yearly budget(s).
- Reduce the District's debt obligations substantially by refinancing previous bonds at lower interest rates.
- Pragmatically use fund balance to reduce tax levies during fiscally difficult times such as last year's pandemic.
- Appropriately funded District Reserves

The Board of Education and the community at large, as demonstrated by our positive budget vote history, wholeheartedly supports the aforementioned budgetary practices because they allow the District to address contingencies as they arise while providing a robust educational program designed to meet the diverse learning needs of our students.

## **Audit Recommendations:**

*The Board and District officials should:*

### *Recommendation*

*Develop and adopt budgets that include reasonable estimates for expenditures based on historical trends, identified analysis, or other known factors, and only appropriate fund balance that will be used to fund operations.*



Michael P. Nagler Ed.D, Superintendent of Schools

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### ***District Response***

The District utilizes conservative budgeting practices and makes estimates based on historical expenditures, while also taking into consideration changes that may take place during the ensuing school year. In addition, the District continues to pursue responsible cost saving opportunities throughout the year which, if successful, may result in actual costs being less than anticipated at the time the budget is adopted. There are numerous contingencies that can and do occur during a fiscal year which may put significant financial strain on the District and could result in a tax levy spike. The District believes it is prudent to provide for possible contingencies within the adopted budget in order to protect District operations, and to protect the District taxpayers from unnecessary spikes in tax rates.

### ***Recommendation***

*Develop a plan to reduce surplus fund balance to comply with the statutory limit and use excess funds in a manner that benefits District taxpayers. Surplus fund balance can be used as a fund source for:*

- o *Funding one-time expenditures,*
- o *Funding needed reserves,*
- o *Paying off debt and*
- o *Reducing District Property taxes.*

### ***District Response***

- The District will continue to repair and update district facilities with capital transfers which are one-time expenditures. The District considers this a pragmatic way to use fund balance to serve the District taxpayers. Taxpayers overwhelmingly agree and support these budgets and capital transfers.
- The District funded a TRS reserve in 2020 in the amount of \$785,000. We will continue to examine funding other reserves if practical.
- The District has continued an aggressive schedule of debt repayment resulting in a 35% reduction and has also incurred savings in excess of \$800,000 by leveraging current low interest rates to refinance debt obligations.

The District will continue to consider the best way to use fund balance to best serve the District taxpayers in future years.

Signed,

Michael P. Nagler, Ed.D  
Superintendent

## Appendix C: Audit Methodology and Standards

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We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We reviewed the adopted general fund budgets from 2016-17 through 2019-20 to determine whether they were reasonable and structurally balanced by comparing adopted budgets with actual results of operations. We reviewed the 2020-21 budget to determine amounts appropriated from surplus.
- We calculated unassigned fund balance as a percentage of the next year's appropriations for 2016-17 through 2019-20 to assess District compliance with statute.
- We recalculated surplus fund balance as a percentage of the next year's appropriation after adding back the unused appropriated fund balance for 2016-2017 through 2019 -20. We estimated the amount of unassigned fund balance that will not be used to finance the 2020-2021 fiscal year based on the previous four-year total of unused appropriated fund balance as a percentage of total budgeted appropriated fund balance.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The CAP should be posted on the District's website for public review.

## Appendix D: Resources and Services

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### **Regional Office Directory**

<https://www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf>

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

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

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

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

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

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