



# Union-Endicott Central School District Financial Management

## Report of Examination

Period Covered:

July 1, 2014 – January 6, 2016

2016M-100



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## Division of Local Government and School Accountability

July 2016

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Union-Endicott Central School District, entitled Financial Management. 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 Union-Endicott Central School District (District) is located in the Towns of Union in Broome County and Owego in Tioga County. The District is governed by the Board of Education (Board) which is composed of seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the Board's direction. The Assistant Superintendent for Business plays a key role in the budget development process and the daily administration of the Business Office.

The District operates six schools with approximately 3,900 students and 700 employees. Its budgeted appropriations for the 2015-16 fiscal year totaled approximately \$77.2 million, which were funded primarily with State aid, real property taxes and grants.

## Objective

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

- Did the Board and District officials ensure that the balances maintained in the District's unrestricted and restricted funds were reasonable?

## Scope and Methodology

We examined the District's financial records for the period July 1, 2014 through January 6, 2016. We extended our scope back to July 1, 2010 to analyze the District's financial condition, budgeting trends, fund balance and restricted fund expenditures and forward to June 30, 2016 to project results of operations.

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. District officials disagreed with some of our findings. Appendix B contains our comments on the issues raised in 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 Management

Fund balance is the accumulated balance of resources remaining from prior fiscal years. A district may retain a portion of fund balance, referred to as unrestricted fund balance, within the limits established by New York State Real Property Tax Law (RPTL).<sup>1</sup> Districts may also establish reserves to restrict a portion of fund balance for a specific purpose, in compliance with statutory directives. However, reserve balances must be reasonable. Therefore, it is essential that District officials monitor and control the budget to ensure the amount of fund balance retained is reasonable. This includes developing structurally balanced budgets to balance recurring expenditure needs with recurring revenue sources while providing desired services on a continuing basis and responsibly managing fund balance.

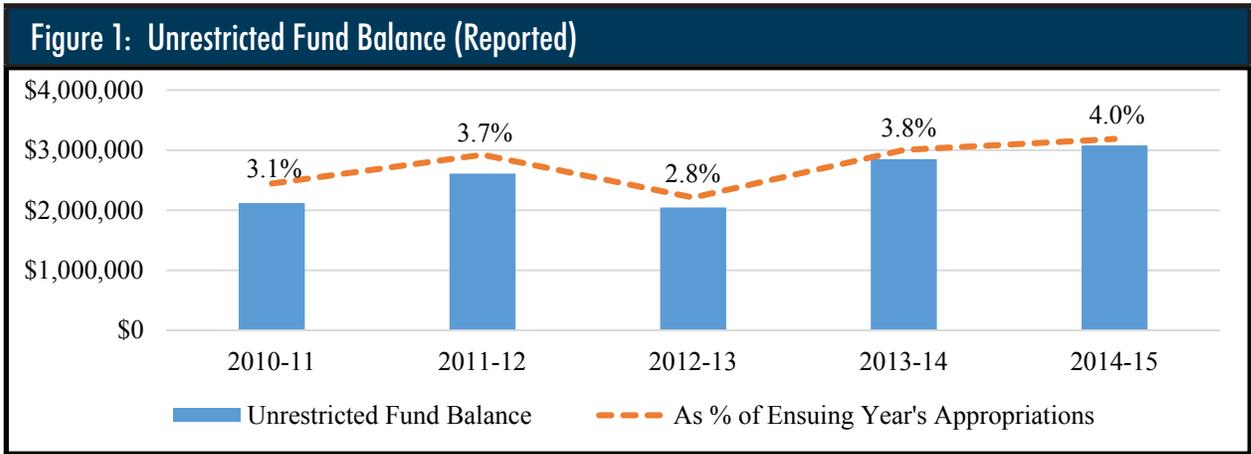
Over the five-year period ending June 30, 2015, the Board maintained unrestricted fund balance within the 4 percent statutory maximum. However, the Board appropriated more fund balance than needed, resulting in an estimated net budget variance of \$20.6 million<sup>2</sup> from 2011-12 through 2015-16. After the unused appropriated fund balances are added back, the unrestricted fund balance exceeds the statutory limit, ranging from 6 to 7.4 percent of the ensuing year's appropriations for the period. Furthermore, although four of the District's six reserve funds had reasonable balances, the retirement contribution reserve and the employee benefit accrued liability reserve had significant balances in excess of their respective liabilities. As a result of these practices, District officials levied real property taxes that were higher than necessary.

Unrestricted Fund Balance – The District reported general fund unrestricted fund balance that was reasonable and within the 4 percent statutory limit for each of the past five years, as Figure 1 shows.

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<sup>1</sup> RPTL requires that unrestricted fund balance not exceed 4 percent of the ensuing year's budgeted appropriations.

<sup>2</sup> Following the adoption of the 2015-16 budget, District officials approved a transfer of \$3.6 million from the capital reserve to the capital projects fund. Because this amount was not part of the adopted budget, we did not include this transfer in our projection of actual results.



However, District officials told us that, due to receiving additional unanticipated State aid revenues in 2013-14 (\$3.1 million) and 2014-15 (\$2.4 million), appropriated fund balance was not used as anticipated. Therefore, the unrestricted fund balance would have been greater. Figure 2 shows our recalculation of the District's unrestricted fund balance after the unused appropriated fund balance is added back.

**Figure 2: Unrestricted Fund Balance (Recalculated)**

	2010-11	2011-12	2012-13	2013-14	2014-15
Total Unrestricted Fund Balance at Year-End	\$2,121,172	\$2,611,639	\$2,047,211	\$2,851,093	\$3,078,614
Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget	\$3,000,000	\$2,400,000	\$2,400,000	\$2,400,000	\$1,975,000 <sup>a</sup>
Total Recalculated Unrestricted Funds	\$5,121,172	\$5,011,639	\$4,447,211	\$5,251,093	\$5,053,614 <sup>a</sup>
Ensuing Year's Budget	\$69,383,482	\$71,406,764	\$74,018,097	\$75,904,843	\$77,230,798
Recalculated Unrestricted Funds as Percentage of Ensuing Year's Budget	7.4%	7.0%	6.0%	6.9%	6.5% <sup>a</sup>

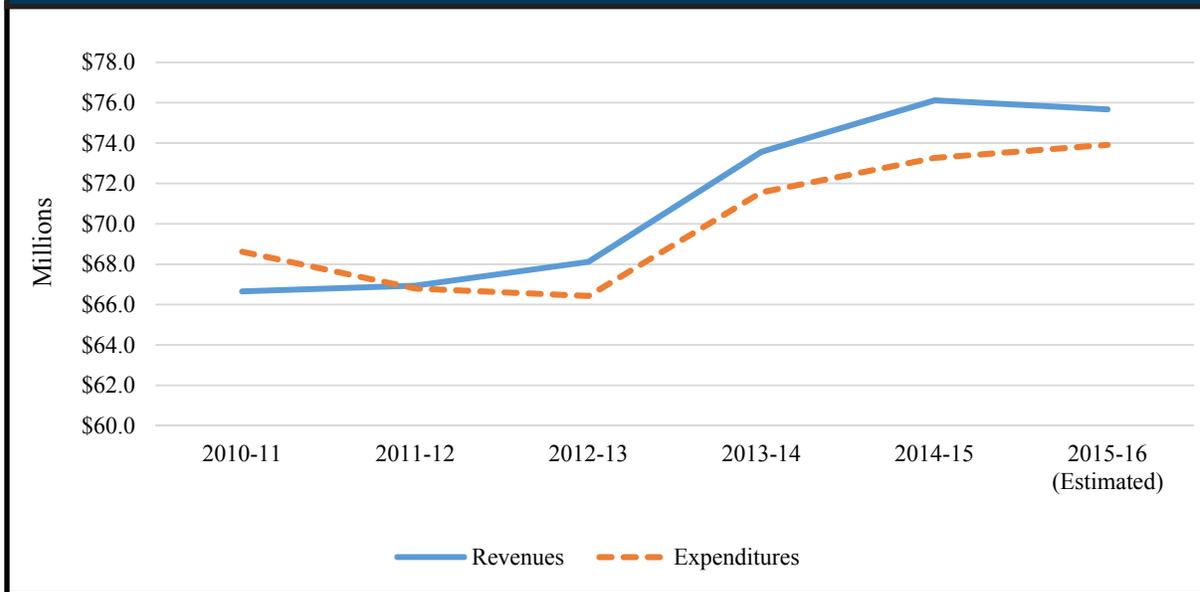
<sup>a</sup> The 2014-15 unused portion of ensuing year's (2015-16) appropriated fund balance and the resulting recalculated unrestricted fund balance was estimated based on the previous five-year average of unused appropriated fund balance as a percentage of budgeted appropriated fund balance.

While revenues have been sufficient to support expenditures, and budget estimates for general fund revenues and expenditures were within a few percentage points from actual amounts,<sup>3</sup> revenues have generally increased<sup>4</sup> at a faster rate than expenditures (Figure 3), which could result in increasingly excessive fund balance.

<sup>3</sup> From 2010-11 through 2014-15, the average variance between budgeted revenues and actual revenues was 2.5 percent and the average variance between appropriations and expenditures was 4.3 percent.

<sup>4</sup> This does not include the \$3.6 million transfer to the capital projects fund in 2015-16 because it was not part of the adopted budget and is a one-time expenditure from a reserve.

**Figure 3: General Fund Revenues and Expenditures**

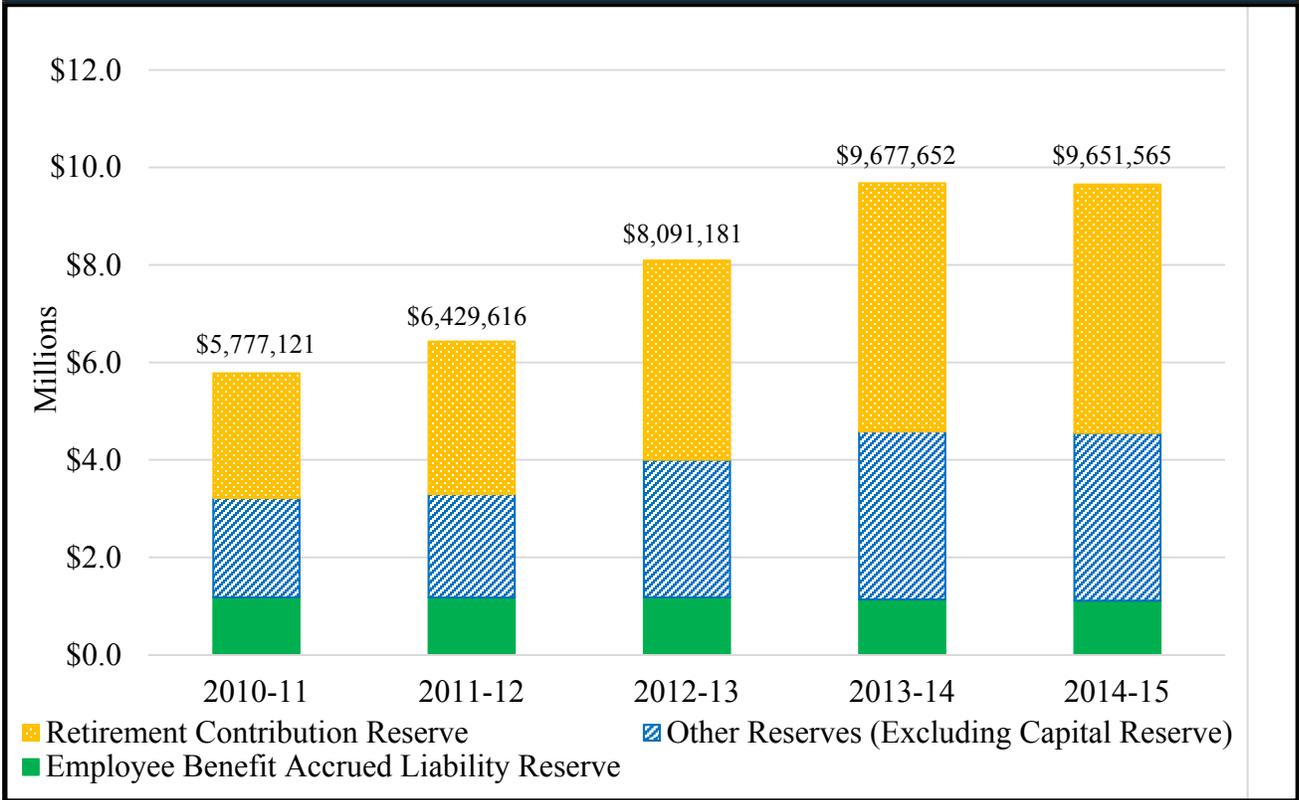


The additional revenues, combined with overfunded reserves for retirement contribution and employee benefit accrued liability, have, in effect, increased the amount of unrestricted funds that the District carries from year to year.

Restricted Funds – As of June 30, 2015, fund balances for the six reserves totaled \$13.9 million, an increase of \$7.9 million since June 30, 2011. We analyzed these reserves for reasonableness and adherence to statutory requirements and found the funding of the reserves for capital, unemployment insurance, tax certiorari, and debt service to be reasonable. However, the retirement contribution reserve and employee benefit accrued liability reserve, with balances totaling \$6.2 million as of June 30, 2015, were overfunded in relation to the amounts necessary for their stated purposes. Combined, these two reserves account for 64 percent of the District’s reserve total (excluding the capital reserve<sup>5</sup>) at the end of the 2014-15 fiscal year. Figure 4 shows the relative amounts of reserve balances over the past five years.

<sup>5</sup> The capital reserve increased by \$4 million from 2010-11 through 2014-15, but District officials plan to use this reserve for a capital project with an estimated cost of \$14.2 million. Subsequent to budget approval, the Board passed a resolution to transfer \$3 million from unrestricted funds to the capital reserve.

**Figure 4: Reserve Balances**



- Retirement Contribution Reserve – This reserve is used to pay the District’s retirement contribution to the New York State and Local Retirement System (NYSLRS). The District’s 2014-15 total NYSLRS expenditure was approximately \$979,000, while the reserve balance as of June 30, 2015 was \$5.1 million – more than five times higher. Over the past five years, the District used this reserve to pay \$872,000 of the District’s \$4.7 million in expenditures for its employees’ retirement contribution and paid the difference from operating funds. The 2015-16 adopted budget plans for the use of \$262,575 from this reserve. Based on the District’s historical use of this reserve as well as its budgeted expenditure in the current year, this reserve is overfunded.
- Employee Benefit Accrued Liability Reserve – This reserve fund may be used only for the payment of accrued but unused sick, vacation and certain other accrued but unused leave time earned by and payable to employees when they leave District employment. This reserve fund may not be used for the District's share of the cost of health insurance for retirees. Based on District officials' explanation of the post-retirement health insurance benefit, there is no payment for the value of sick leave accruals due upon retirement or even a mechanism

to determine the monetary value of accumulated sick leave that would be due and payable upon retirement. Therefore, District officials did not consider the actual number of accumulated, unused sick leave days to calculate the liability against this reserve. Rather, they calculated it based on the minimum percentage of the District's share of post-retirement health insurance costs. Therefore, since the District does not currently intend to use this reserve for the payment of accrued and unused leave, this reserve is overfunded by the full amount of \$1.1 million. District officials told us that their goal is to have the retirement contribution reserve balance funded with five years' worth of expenditures, and that they were unaware that the employee benefit accrued liability reserve could not be used to pay for the District's share of retiree health insurance costs.

Tax Levy – Regardless of the large and growing fund balance, the District's adopted budgets each year, since at least 2011-12, have included an increase to the real property tax levy (Figure 5).

Figure 5: Real Property Tax Levy					
	2011-12	2012-13	2013-14	2014-15	2015-16
Adopted Real Property Tax Levy	\$36,417,993	\$37,399,571	\$38,161,196	\$39,110,273	\$39,618,507
Dollar Increase from Prior Year	\$1,339,980	\$981,578	\$761,625	\$949,077	\$508,234
Percentage Increase from Prior Year	3.8%	2.7%	2.0%	2.5%	1.3%

Although the District's real property tax levy increase remained within the property tax cap<sup>6</sup> since its inception in the 2012-13 fiscal year, the District's aggregate budgetary surplus of \$20.6 million during the last five fiscal years is over four times the total tax levy increase of \$4.5 million during the same period.

## Recommendations

The Board and District officials should:

1. Discontinue the practice of adopting budgets with the appropriation of fund balance that will not be used.

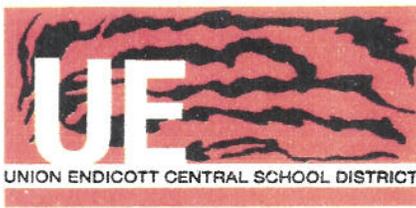
<sup>6</sup> In 2011, the New York State Legislature enacted a law establishing a property tax levy limit, generally referred to as the property tax cap. Under this legislation, the property tax levied annually generally cannot increase more than 2 percent or the rate of inflation, whichever is lower, with some exceptions. School districts may override the tax levy limit by presenting to the voters a budget that requires a tax levy that exceeds the statutory limit. However, the budget must be approved by 60 percent of the votes cast.

2. Review all reserve balances and transfer excess funds to unrestricted fund balance, where allowed by law, or other reserves established and maintained in compliance with statutory directives.
3. Reduce the amount of unrestricted fund balance, as appropriate, and use the excess funds in a manner that benefits District residents. Such uses could include, but are not limited to:
  - Using surplus funds as a financing source;
  - Funding one-time expenditures;
  - Funding needed reserves; and
  - Reducing District property taxes.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



**Dr. Suzanne E. McLeod, Superintendent of Schools**  
**Union-Endicott Central School District**  
**1100 East Main Street, Endicott, New York 13760-5298**  
**Telephone (607) 757-2103 Fax (607) 757-2809**

May 27, 2016

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

Dear Mr. Eames:

The Union Endicott Central School District Board of Education and Administration submit this letter as its official response for the audit report, "Financial Management – Report of Examination – Period Covered: July 1, 2014 through January 6, 2016".

We are appreciative of the time and effort expended by the Comptroller's staff and are always looking for ways to improve the District's procedures. We are additionally pleased that there were no findings of fraud, waste, or abuse. However, after reviewing this report, it is evident that the District and the Comptroller's Office have differing opinions regarding budgeting practices. At all times the District was within allowable statutory limits and the amounts appropriated were used to mitigate tax impact. The Board of Education continues to believe in long-range planning, with extensive use of public budget workshops which are transparent to the public, which encourage input from all stakeholders, and which ensure the fiscal stability of a viable educational program.

See  
Note 1  
Page 13

The Comptroller's report states that the District appropriated fund balance that was not used. Budgeting is a process of estimating future expenditures based upon the information available at the time. There are a lot of variables and unknowns that districts must account for when budgets are being developed, such as contingencies for Special Education costs, utility costs, health insurance, and retirement costs. During the period reviewed, Districts experienced an uncertainty of revenue sources due to the Gap Elimination Adjustment, state aid, and the tax cap legislation. The Union Endicott Central School District experienced a loss of over \$24 million due to the GEA, and another \$8 million due to the loss in Foundation Aid. Additionally, the tax cap legislation essentially eliminates the district's ability to increase revenues through taxation. Union Endicott is proud to say that we have always given our community a budget that has been within the parameters of the tax levy limit. Given these fluctuating financial variables and reliance on state aid, districts such as Union Endicott are challenged to maintain stable budgets without criticism of having "too much" or "too little" as we contend with short and long term financial planning.

See  
Note 2  
Page 13

The Comptroller's report also states that the District needs to review all reserve balances and transfer funds to unrestricted fund balance (where allowed by law), then reduce unrestricted fund balance and use those funds in a manner that benefits district residents. Each year, the Board of Education carefully monitors the District's fund balance and utilizes the information as part of the budget development process – making adjustments as necessary. In addition, the external independent auditor carefully reviews all reserves annually to determine appropriate funding levels.

See  
Note 3  
Page 13

Through the use of fund balance and reserves, the Board of Education has maintained the District's commitment to provide quality education with the highest standards of fiscal management and long-range planning.

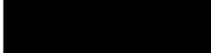
Sincerely,

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Suzanne E. McLeod, Ed.D.  
Superintendent of Schools

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John Cornick  
Board of Education President

cc: Nicole Wolfe  
Board of Education  
Kathy Blackman  


## APPENDIX B

### OSC COMMENTS ON THE DISTRICT'S RESPONSE

#### Note 1

If budgets were more realistic and appropriated fund balance had been used as a funding source, the tax impact would have been mitigated. However, when appropriated fund balance is not used, budgets are misleading.

#### Note 2

During the period June 30, 2011 through June 30, 2015, unrestricted fund balance grew by more than \$950,000 and restricted funds (excluding capital reserve) were increased by almost \$3.9 million. District officials told us this significant accumulation was the result of unanticipated State aid.

#### Note 3

Subsequent to our exit conference with District officials, we spoke with the District's external auditor who told us that she informally discusses with District officials which reserve balances can be increased with excess funds to offset future budgets. However, such discussions were not included in the external auditor's official report or related letters to the District. Furthermore, reserves should be used to provide needed financial flexibility and not to store future surplus moneys.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials and reviewed Board meeting minutes, resolutions and budgeting policies and procedures to gain an understanding of the District's budget development and monitoring processes.
- We reviewed the results of operations and analyzed changes in fund balance for the general fund for the period July 1, 2010 through June 30, 2015.
- We compared adopted budgets and actual operating results for the period July 1, 2010 through June 30, 2015 to determine if the budget assumptions were reasonable, and we investigated reasons for significant variances. We also reviewed the adopted budget for 2015-16 and estimated the results of operations by applying the average variance between budget and actual results over the preceding five years. Lastly, we also reviewed the District's proposed strategic plan for reasonableness.
- We reviewed the District's reserves and related expenditures to determine if reserves were properly and legally established, funded and used and if their balances were reasonable.
- We reviewed the District's real property tax levies for 2010-11 through 2015-16 to determine if the tax levies had been increasing.

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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Andrew A. SanFilippo, Executive Deputy Comptroller  
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