

Freeport Union Free School District

Financial Management

2024M-49 | November 2024

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Report Highlights

Freeport Union Free School District

Audit Objective

Determine whether the Freeport Union Free School District's (District) Board of Education (Board) and District officials properly managed fund balance and reserves.

Key Findings

The Board and District officials did not properly manage fund balance and reserves. Because they consistently and significantly overestimated appropriations, it appeared the District needed to use appropriated fund balance and reserves to close projected budget gaps totaling \$51.4 million for fiscal years 2019-20 through 2022-23. However, none of the appropriated fund balance or reserves were used.

The Board and District officials' consistent practice of appropriating fund balance that is not needed circumvents the statutory limit on surplus fund balance and maintaining unreasonable reserve balances results in real property tax levies that are higher than needed to finance expenditures. The Board and District officials:

- On average, annually over estimated appropriations by \$18 million (10 percent), and annually appropriated \$12.8 million of surplus fund balance and reserves they did not need or use to finance operations.
- Maintained original and recalculated surplus fund balance as much as three times the statutory limit.
- Maintained three reserves totaling \$37.2 million without demonstrating they were reasonably funded. For example: retirement contribution reserve has about \$18.9 million, enough to pay annual expenses for almost 13 years.

Recommendations

The audit report includes five recommendations, which if implemented, will improve the District's management of fund balance and reserves.

District officials disagreed with certain findings in our report, but indicated they plan to initiate corrective action. Appendix B includes our comments on certain issues raised in the District's response.

Audit Period

July 1, 2019 - July 31, 2023

Background

The Office of the State Comptroller (OSC) issued a prior audit report on the District's financial condition in December 2016. The audit found the District appropriated fund balance that was not used, exceeded the surplus fund balance statutory limit, and overfunded reserves.

The District is located in the Town of Hempstead, Nassau County. The five-member Board is responsible for managing and controlling the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer responsible for day-to-day management and for developing the budget.

Quick Facts (Millions)

| | |
|---|---------|
| 2023-24 Appropriations | \$238.8 |
| Four-year Total Overestimated Appropriations | \$71.6 |
| Total of Six Reserves as of June 30, 2023 | \$64.3 |

Financial Management

How Should a School Board and District Officials Properly Manage Fund Balance?

Fund balance is the difference between revenues and expenditures accumulated over time. School districts may retain a portion of surplus fund balance¹ for unexpected occurrences and fluctuations in cash flow. However, a school district board (board) and officials must comply with New York State Real Property Tax Law Section 1318, which limits the amount of surplus funds that a school district can retain to no more than 4 percent of the budget. Officials must apply any surplus fund balance in excess of the 4 percent limit to reduce the upcoming year's real property tax levy or appropriately fund needed reserves.

To properly manage fund balance, the board and school district officials should develop and 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, the board must estimate the amounts the school district will spend and receive, the amount of fund balance that will be available at fiscal year-end to use toward the upcoming year's budget, and the expected real property tax levy. Accurate and reasonable budget estimates help ensure that the tax levy is not greater than necessary, the budget is presented transparently to the public, and surplus fund balance does not exceed the legal limit. During the fiscal year, as school district officials have a better understanding of the results of financial operations, they should consider using anticipated surplus fund balance to finance one-time expenditures, fund needed reserves or pay off debt.

The Board and District Officials Did Not Adopt Realistic Budgets

OSC issued an audit report² in December 2016 that included findings that the District annually overestimated expenditures, appropriated fund balance that was not used and reported surplus fund balance that exceeded the statutory limit.

We compared budgeted revenues and appropriations with actual operating results from July 1, 2019, through June 30, 2023. While revenue estimates were generally reasonable, appropriations were overestimated by an average of approximately \$18 million annually (10 percent), or a three-year cumulative total of approximately \$72 million (Figure 1).

Figure 1: Overestimated Appropriations in Millions

| | 2019-20 | 2020-21 | 2021-22 | 2022-23 | Total |
|--|---------|---------|---------|---------|---------|
| Appropriations^a | \$185.0 | \$188.7 | \$196.0 | \$210.2 | \$779.9 |
| Less: Actual Expenditures^b | \$168.2 | \$171.1 | \$176.0 | \$193.0 | \$708.3 |
| Overestimated Appropriations | \$16.8 | \$17.6 | \$20.0 | \$17.2 | \$71.6 |
| Percentage Overestimated^c | 10% | 10% | 11% | 9% | 10% |

a) Includes encumbrances (prior year funds scheduled to be paid or disbursed in the current fiscal year and recorded with the current year's expenditures)
b) Includes transfers to other funds
c) Overestimated appropriations divided by actual expenditures

1 For guidance on fund balance classification and reporting see <https://www.osc.ny.gov/files/local-government/publications/pdf/gasb54.pdf>.

2 See *Freeport Union Free School District Financial Condition (2016M-300)*

While overestimated appropriations were spread throughout the budget, there were three expenditure accounts that were most significantly overestimated by a cumulative total of \$45 million (11 percent), or an annual average of more than \$11 million in each of the four fiscal years. The Board overestimated appropriations for teaching salaries, special education and health insurance. The total overestimated for these accounts ranged between \$1.9 to \$6.8 million annually. The largest overestimation was for teaching salaries, averaging \$5 million (8 percent) per year over the last four years. Because teaching salary costs are largely determined by contractual agreements, there is sufficient information available to District officials to reasonably estimate anticipated expenditures for the teachers' salaries.

The Superintendent told us that as part of the budget process and sound financial practices, the District builds certain contingencies into the budget for unexpected expenditures that (if not realized) could result in higher fund balances. While it is necessary to consider unexpected expenditure fluctuations during budget preparation, the Board and District officials should consider previous years' results of operations and the surplus fund balance available to accommodate such unexpected expenditures. At the end of fiscal year 2022-23, the surplus fund balance was more than \$20 million.

Had the Board and District officials adopted more reasonable estimates for appropriations, they could have considered using excess funds towards paying one-time expenditures and/or funding needed reserves or further reducing the tax levy.

The Board and District Officials Appropriated Fund Balance That Was Not Needed or Used to Finance Operations

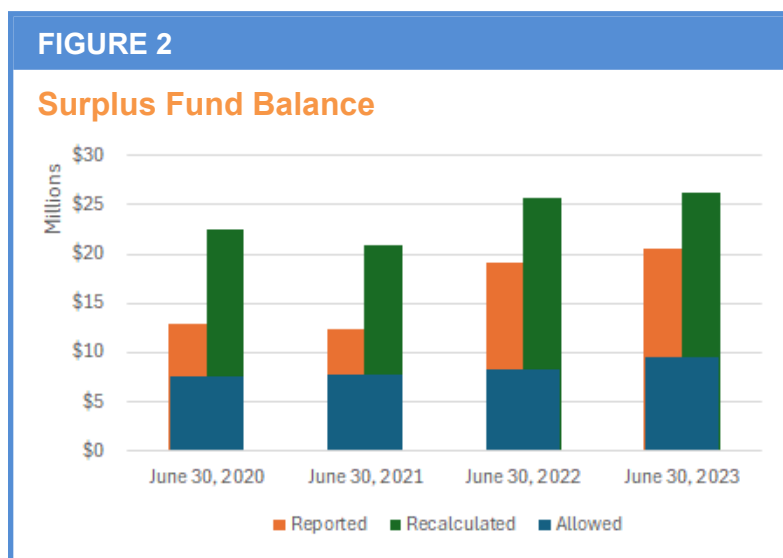
Because of the Board and District officials' consistent practice of significantly overestimating appropriations, it appeared the District needed to use appropriated fund balance to close projected budget gaps totaling \$51.4 million for fiscal years 2019-20 through 2022-23. During this time, the Board appropriated a total of \$35 million in surplus fund balance and \$16.4 million in reserves, or an average of \$12.8 million each year to finance annual expenditures. However, due to overestimating the expenditures, the District's actual annual revenues were more than sufficient to cover annual expenditures. As a result, the District experienced operating surpluses each year and realized a cumulative operating surplus totaling \$32.5 million or about \$8.1 million per year. The District did not use any of the fund balance or reserves that were appropriated and total fund balance continued to increase.

Furthermore, we reviewed the 2023-24 budget and determined that revenue and expenditure estimates are consistent with the last four fiscal years. As such, the District will most likely generate another operating surplus in 2023-24, and it will not need to use the approximately \$9.4 million of surplus fund balance appropriated in the 2023-24 budget.

The Board and District officials' practice of appropriating fund balance that is not needed or used is, in effect, a reservation of fund balance that is not provided for by statute and is a circumvention of the statutory limit on surplus fund balance. Appropriating fund balance that is not needed artificially reduces the amount of surplus fund balance subject to the statutory limit, giving the appearance that surplus fund balance is within or closer to the statutory limit.

The Board and District Officials Maintained Fund Balance That Exceeded the Statutory Limit

The District reported year-end unrestricted general fund balance at levels that exceeded the 4 percent statutory limit in the four fiscal years reviewed, by as much as 5 percentage points. As previously noted in this report, appropriated fund balance was not used in any of the years we reviewed and the District realized operating surpluses instead of planned deficits. For perspective, when unused appropriated fund balance was added back, the District's recalculated surplus fund balance ranged from \$20.9 million to \$26.2 million or from 10.7 percent to 12.2 percent of the upcoming year's budget, more than three times the statutory limit (Figure 2).



By maintaining surplus fund balance at more than the statutory limit, District officials are withholding funds from productive use. Had the Board and District officials developed and adopted more reasonable budgets, they could have considered using these excess funds to fund one-time expenditures or needed reserves, pay off debt or reduce the tax levy.

Although the District's tax levy has remained relatively flat, increasing only \$2.3 million or 2.6 percent over the four-year period, District officials' budgeting practices artificially inflate the total budget, which results in a real property

tax levy that is higher than needed to finance expenditures. Furthermore, by continually overestimating appropriations year after year, District officials are not presenting the District's budgets in a transparent and meaningful manner to taxpayers.

How Should the Board and District Officials Manage Reserves?

A school board should balance the intent for accumulating funds for identified future needs with the obligation to ensure real property taxes are not higher than necessary. School districts are legally allowed to establish reserves and accumulate funds for certain future purposes (e.g., unemployment or retirement expenditures). While school districts are generally not limited to the amount of funds that can be held in reserves, a board should ensure reserve balances are reasonable.

A school board should appropriately allocate funds to specific reserves for the reserves' intended purposes. A school board should adopt a comprehensive written policy clearly stating:

- Its rationale for establishing reserve funds,
- The objectives for each reserve,
- Reasonable maximum funding levels,
- How and when to use reserves, and
- A periodic review of reserve balances to assess reasonableness.

Reserve funds should not be merely a location to accumulate unneeded excess cash or fund balance.

The Board and District Officials Did Not Manage Reserves in a Transparent Manner

OSC's prior District audit report included findings that the District overfunded reserves and appropriated reserves to fund budgeted appropriations without disclosing to residents which reserves would be used and how much was appropriated from each reserve. We determined the District continues to maintain excessive balances in reserves. Since our last audit, balances in reserves have grown from approximately \$35.6 million to approximately \$64.3 million, or an increase of \$28.7 million. We also determined that, except for the capital projects reserve fund, the District has no plan or written policy to determine optimal funding levels for each reserve, or conditions to use reserve assets.

The District's written reserve fund policy and regulations³ detail procedures to adhere to on creating and funding reserves, including determining optimal funding levels, and the conditions upon which to use the reserve assets. However, officials could not provide an analysis or plan that supports the current excessive funding levels. Without the information required by the regulations, the Board cannot provide proper oversight or assurance that reserve balances do not exceed the amount necessary to address long-term obligations or planned expenditures.

As of June 30, 2023, the District reported six reserves in the general fund totaling approximately \$64.3 million. During the audit period, the District appropriated \$16.4 million in reserves to finance operations. The Superintendent told us that District officials based the amount of appropriated reserves each year on the estimated expenditures related to the reserves. However, none of the appropriated reserves were used during the four-year audit period because revenues from the general fund were sufficient to pay for the related expenditures. While the teachers' retirement contribution, employee benefit accrual liability and capital reserve balances are reasonable, the reserves are routinely funded by unplanned operating surpluses, rather than through the budget process. For example, \$11.5 million of the unplanned operating surplus realized in the 2022-23 fiscal year was transferred to five of the reserves.

³ The reserve regulations are contained in the District's Administrative Manual which includes various regulations and/or procedures developed by District administrators in accordance with Board-adopted policies.

Furthermore, the unemployment insurance, retirement contribution and workers' compensation reserves had a combined balance of \$37.2 million. We determined these reserves have excessive balances based on a review of eligible liabilities, a historical cost trend analysis and their use:

Unemployment Insurance Reserve – The Board re-established this reserve in November 2016 to reimburse the New York State Unemployment Insurance Fund for payments made to claimants. As of June 30, 2023, the reserve had a \$3.7 million balance. The District had no unemployment expenditures in the last three completed fiscal years. However, in the first year of our audit period (2019-20) they incurred annual costs of \$143,000 for unemployment, which were budgeted for and paid from general fund appropriations, not the reserve. If future unemployment costs were to average \$143,000 per year, the reserve at its current funding level would be sufficient to pay annual unemployment expenditures for more than 25 years.

Retirement Contribution Reserve – The Board established this reserve in September 2005 to finance District contributions to the New York State Local Employees Retirement System (ERS). As of June 30, 2023, the reserve had a balance of \$18.9 million and District officials had not used the reserve to pay related expenditures. From 2019-20 through 2022-23, the District incurred associated retirement contribution costs averaging approximately \$1.5 million per year, which were budgeted for and paid from general fund appropriations, not the reserve. Furthermore, if ERS costs continue close to this average, the reserve would be sufficient to pay expenditures for almost 13 years.

Workers' Compensation Reserve – The Board re-established this reserve in November 2016 to pay for workers' compensation claims. As of June 30, 2023, the reserve had a balance of approximately \$14.6 million. From 2019-20 through 2022-23, the District paid about \$1.4 million on average in worker compensation claims each year, which were budgeted for and paid from general fund appropriations, not the reserve. Furthermore, if these claims continue close to the average, the reserve would be sufficient to pay expenditures for more than 10 years.

District officials could not explain why the excessive balances held in these reserves were needed or reasonable. The Superintendent told us the optimal funding level for reserves based on consultation with the District's external auditors, is up to seven years. He also told us it is fiscally responsible to fund reserves at the current levels, as well as maintaining surplus fund balance more than the statutory limit, because the District is highly dependent on State aid which is volatile and unpredictable. He said the District will be spending down excess fund balance and reserves over the next few years because the Governor warned that State budget deficits will be increasing and projects State aid to increase by only 3 percent in 2024-25, which is not enough to cover the District's rollover increases. The unemployment insurance, retirement contribution and workers' compensation reserves had balances that were sufficient to pay annual expenditures for the next 25, 13, and 10 years, respectively. Even with the possible future loss of State aid, the reserves have enough funds to pay for any future costs for more than the next few years

Funding reserves at levels higher than necessary for operations and/or needs suggests that taxpayers may have been taxed more than necessary. As a result, the District could, in accordance with statute, reduce overfunded reserves to more reasonable levels and use the excess funds for a purpose more beneficial to District residents and taxpayers.

What Do We Recommend?

The Board and District officials should:

1. Develop and adopt budgets that include reasonable estimates for appropriations and the amount of fund balance that will be appropriated and used to fund operations.
2. Develop and adopt a plan to reduce surplus fund balance to comply with the statutory limit. Surplus funds can be used for:
 - Reducing District property taxes,
 - Funding one-time expenditures,
 - Funding needed reserves, and
 - Paying off debt.
3. Determine the optimal funding levels for the reserves, as well as the conditions to use reserve assets, as required by District regulations.
4. Develop and adopt a plan to reduce the balances of the unemployment insurance, retirement contribution and workers' compensation reserves to reasonable levels. The surplus in these reserves can be used to reduce District property taxes, fund one-time expenditures, and/or fund needed reserves that are not already adequately funded.
5. Transparently fund reserves by including anticipated funding of reserves in the annual operating budget.

Appendix A: Response From District Officials

Freeport Public Schools 235 North Ocean Avenue • Freeport, New York 11520 • 516-867-5200



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Superintendent of Schools

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September 20, 2024

Via Email: imccracken@osc.state.ny.us

Mr. Ira McCracken
Chief of Municipal Audits
Division of Local Government and School Accountability
Office of the New York Comptroller
110 State Street, Albany, NY 12236

On behalf of the Freeport Public Schools District (the "District"), thank you and your staff for providing us with an opportunity to respond to the Financial Management Report of Examination (the "Draft Audit Report" or "Report"). We note that your review covers the period from July 1, 2019, through July 31, 2023, which includes a challenging period caused by the COVID pandemic. Please note that this response will serve as the district's Corrective Action Plan.

Freeport Public Schools is committed to providing an outstanding educational program and world-class opportunities for all students to blossom to their full potential and prepare them to be global citizens, college and career ready in the 21st Century world. At the same time, we are equally committed to the district's long-term tradition of sound fiscal management of the district's finances. Budget development and the sound financial condition of the district is based on the district goals, its strategic plan, and our guiding principles of improving student achievement and increasing academic rigor, maximizing available resources through economies and efficiencies, providing a strong educational program, affordability to community members, and continued focus on the long-term financial stability of the district. The national economy, economic uncertainties in the state, state budget deficit, tax levy cap, unfunded/underfunded mandates, loss of state aid, and frozen aid formulas have created unprecedented and challenging financial times that continue to have a profound impact on the district's financial planning.

The opinions expressed by your Office, throughout your report of the district's financial practices, are the result of conservative approach in estimating the costs associated with the above described events, all of which have created challenging headwinds to financial planning and budgeting for a sound and secure future. The district's mission is to provide the best educational programs and opportunities for our students and to create stability and predictability for our community. For instance, the district has faced with unpredictability in student enrollment. Since 2019, our student enrollment has fluctuated between 7,450 students and 6,400 students. This arises from having the responsibility of addressing the educational needs of a large transient student population with significant educational needs. The audit

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report omits the practical realities of the multiple challenges our District faces that impacts the district’s ability to fund an excellent educational program. We must take a pragmatic approach when funding reserves and budgets so that the district is prepared to respond to the increased needs of our students by prophylactically budgeting programs to ensure all of our students’ needs are met, both anticipated and unanticipated. Retrospectively, the Comptroller’s office must consider the pervasive cost impact of the COVID pandemic occurring during two of the audit years ranging from the acquisition and distribution of tablet computers, as well as to staffing needs to have met the needs of our students arising from the deprivation of a hands-on education during the pandemic. Those costs continue to this day, manifested in some degraded student performance.

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While the District acknowledges the findings in the Draft Audit Report, we respectfully differ with the findings when considering the vast needs of the Freeport Public Schools which is a high need, low wealth District.

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Adopting Realistic Budgets:

The audit report states, “The Board and District Officials Did Not Adopt Realistic Budgets”. However, the financial state of Freeport Public Schools is excellent. Notably, our External Auditors and Standard & Poor’s Bond Ratings have repeatedly commended the district for maintaining an exemplary fiscal condition that includes well-funded reserves and fund balances. Despite the foregoing, for nine of the last ten years, the tax levy has been decreased including the last two consecutive years easing the tax burden borne by the Freeport community, in the age of a State created tax cap. For the period covering the scope of the audit, the average tax levy increase has been 1.8% and for the last nine years about 2%.

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During this time, despite the economic climate and our increasing fiscal and educational challenges, the district managed to add instructional staff, increase programming across the district, expand enrichment programs, and improve facilities, all of which directly relate to a better education for children. Respectfully, when criticizing the District for its well-funded reserves and fund balance, the audit fails to mention any of the profound challenges faced by the District during the years examined, namely, the tax levy cap, frozen Foundation Aid, increasing enrollment, unfunded/underfunded mandates, collective bargaining negotiations, unaccompanied minors, increasing needs of English as a New Language (ENL) students, Students with Interrupted Formal Education (SIFE), and Students with Disabilities (SWD), threat of tax certiorari, PILOT payments, Gap Elimination Adjustment (GEA), COVID-19, and the unpredictability of state aid. The impact of the above factors for any given year can be more than \$10,000,000.

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The COVID-19 pandemic significantly impacted the Freeport Public Schools budget by necessitating unforeseen expenditures and disrupting traditional revenue streams. Freeport Public School transitioned to remote and hybrid learning models, the district faced increased costs for technology upgrades, such as purchasing laptops and software to support virtual classrooms. Additionally, there were expenses related to health and safety measures, including personal protective equipment (PPE), sanitation supplies, and facility modifications to ensure social distancing. Simultaneously, the pandemic led to the reduction of operations with standard spending. Although we maintained our contractual payroll expenses, vendor payments and other typical expenses for the remainder of the year, there were some typical expenses that were unspent which caused an increase to the district's fund balance.

Federal and State funding resulting from the COVID-19 pandemic provided Freeport Public Schools with 21 million dollars in grants to support learning loss and support students and families following the pandemic. These funds were carefully budgeted and utilized in targeted areas over the past 4 years.

As a result of receipt of these unplanned federal and state funds, the district was required to increase its fund balance.

Fund Balance:

The audit report states, “The Board and District Officials Appropriated Fund Balance That Was Not Needed or Used to Finance Operations”, Freeport is a high-need, low wealth suburban school district and is dependent on state aid. The district has always taken a long-term view of both sound and stable fiscal and educational leadership. The district has maintained fiscal prudence in administering its fund balance to achieve educational excellence that can withstand the tremendous uncertainties attached to fluctuating and frankly insufficient state aid. and our inability to raise revenue due to the tax levy cap limitations and other factors as noted earlier.

As you are aware, within the past few years, to balance the state deficit of \$10 billion, the Gap Elimination Adjustment (GEA) was enacted which cumulatively reduced the district's state aid by \$35,000,000 since 2009. Only recently has the district been partially made whole. However, the Campaign for Fiscal Equity court decision that required New York State to adequately and equitably fund school districts such as Freeport through Foundation Aid was not fully enacted by the state. This has resulted in a staggering loss of more than \$20,000,000 over the last few years to Freeport. School districts statewide have been shortchanged by \$3.9 billion in Foundation Aid.

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Due to the unpredictability of state aid, which includes reductions and unfulfilled Foundation Aid, we must protect our students' future by being fiscally responsible. While the district does not believe it is in its best interest and in prudent financial management to operate on a declining fund balance or a deficit and spend down its reserves to lower levels. We believe the current reserves have been reasonable and appropriately funded based on the district's special circumstances, and ongoing discussions with our auditors. Except for the recently created Teachers Retirement Reserve, there are no regulations that define appropriate levels of reserve amounts. However, the district recognizes the 4% fund balance cap and will continue to consult with the Board along and the district's auditors to utilize the reserves as needed to meet the needs of the district as we have done to mitigate potential unnecessary tax burden to our school community as demonstrated by our tax levy being decreased 9 out of the last 10 years.

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The district will continue to determine the optimal level for each reserve in accordance with regulations, and in alignment with our philosophy of long-term fiscal stability and responsibility for our students and community.

Fund Balance Exceeding Statutory Limit:

The audit report states, "The Board and District Officials Maintained Fund Balance That Exceeded the Statutory Limit", Although the District has been able to reduce the unassigned fund balance for four of the past seven years, including during the 2022-2023 fiscal year; but it increased due to COVID-19 grants and assistance in the 2021-22 fiscal year; while we believe the 4% limit should be reevaluated and increased by the State, the District recognizes that it remains applicable. We are a high needs school district largely dependent on State Aid. The impact of our large population of ENL and Special Needs students with varying needs continues to have a significant financial impact on the district and may fluctuate from year to year. The district needs to maintain fiscal and educational solvency for multiple years despite the uncertainties described and the unpredictability of State Aid from year to year. The New York State 4% unassigned fund balance regulation is unrealistic and detrimental to high needs school districts such as ours. However, to the extent the district can prudently take steps to do so, it acknowledges the limits of the current fund balance cap.

Freeport Public Schools has and will always continue to monitor the district's unassigned fund balance to ensure we are able to continue to provide a quality education for our students not only now but also in future years. The district has been able to accomplish a decrease in tax levy nine out of the last ten years. This is only achieved through long-range fiscal planning, which addresses unpredictability and the increasing needs of our over 6,400 students, while maintaining an optimal fund balance and reserves, while achieving the district's mission of providing the best educational programs and services for our students

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while providing fiscal responsible budgets to our Freeport school community.

Transparency in Managing Reserves:

The audit report states, “The Board and District Officials Did Not Manage Reserves in a Transparent Manner”. The district respectfully disagrees with the audit conclusion. The district is fully transparent in all budget processes. The budget process begins in November and goes through May. The details are provided in public hearings through various consultations, discussions, and presentations and make it readily available on the website. The Freeport district disseminates all information in appropriate newsletters and flyers to ensure information to all key stakeholders.

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The district has a comprehensive internal and external audit which is conducted annually and is compliant with New York State regulations. The results of these audits are discussed by the district audit firms with the audit committee, the board, and at public meetings which follow the standard audit practice. At these meetings the auditors review the financial statements, audit findings, fund balance, and the various reserves.

Conclusion:

As the Comptroller may know, I assumed the position of Superintendent of Schools just one month ago. I have relied upon my own appreciation of the unique cost drivers of a low wealth, high student need school district and upon significant information provided to me by staff in response to the audit findings and recommendations. My prior service to the children of New York City as an administrative leader throughout the city certainly provided me with an understanding of the fiscal concerns arising from unpredicted exigencies.

During my short tenure thus far at Freeport, I have learned of the district’s pride in its long-term fiscal planning which has resulted in an excellent financial circumstance as recognized by Standard & Poor’s Bond Ratings, our auditors, and the Office of the Comptroller’s Fiscal Stress Monitoring System. The district continues to address its unrestricted fund balance by reducing the tax levy. It will continue to look for opportunities to lower the fund balance amount as recommended by the audit report while maintaining reasonable reserve balances and while still maintaining vitally needed financial liquidity.

Freeport Public Schools remain committed to providing outstanding world-class educational opportunities for our students and to our long-term tradition of sound fiscal responsibility to the community in the

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management of the district finances. This approach has resulted in amazing outcomes for our students and in the tax levy having been decreased nine out of the ten recent years. We recognize that the comments expressed in our response are in measure the result of a difference in financial planning. The district's approach to budgeting has been to protect our exemplary educational programs and services while carefully accounting for the special circumstances faced by our District. The district seeks to provide fiscal prudence in a revenue environment of a state tax cap and volatile state aid, with ever fluctuating enrollment. We all have been influenced in our planning by the unpredictability of life in a pandemic, and during national educational turmoil.

The district thanks the Office of the State Comptroller for their courtesousness and professionalism displayed throughout the review.

Sincerely,

Ms. Fia Davis
Superintendent of Schools

Cc: Ms. Sunday Coward, President, Board of Education and Members of the Board of Education, Freeport UFSD
Alan Yu, Cullen & Danowski, LLP (External Auditors)
Ernest P. Smith, Nawrocki Smith, LLP (Internal Auditors)

E D U C A T I O N A L E X C E L L E N C E

Appendix B: OSC Comments on the District's Response

Note 1

The information and recommendations presented in the report are based on supported audit findings. The objective of our audit was to evaluate the District's financial management. Our audit report addressed a number of factors including:

- The unrestricted fund balance in relation to the statutory limit,
- The appropriation of fund balance that was not needed to fund operations, and
- Reserve fund balances in relation to associated liabilities or annual expenditures.

Our December 2016 audit also reported officials appropriated fund balance that was not used, exceeded the surplus fund balance statutory limit and overfunded reserves.

Note 2

The Board maintained surplus fund balance over the statutory limit, overestimated appropriations and appropriated fund balance that was not needed prior to, during and after the pandemic ended.

Note 3

Although the District's tax levy has remained relatively flat, increasing by \$2.3 million or 2.6 percent over the four-year audit period, District officials' budgeting practices artificially inflate the total budget, which results in a real property tax levy that is higher than needed to finance expenditures. Furthermore, by continually overestimating appropriations year after year, District officials are not presenting the District's budgets in a transparent and meaningful manner to taxpayers and have regularly disregarded the 4 percent statutory limit.

Note 4

Our review of the reserve balances in relation to their annual expenditures showed that three of the six reserves were overfunded. Instead of using reserves to pay for related expenditures, the District made payments from operating funds. Our review of the District's reserve fund regulations detail procedures to adhere to regarding creating and funding reserves, including determining optimal funding levels. However, District officials could not provide an analysis or plan that supports the current funding levels of the three overfunded reserves.

Note 5

District officials have not defined what the optimal fund balance and reserves balances should be. District policies should define optimal balances. As stated in the report, the District's surplus balance is beyond the statutory limit and three of the six reserves have unreasonable balances.

Note 6

The District's budgeting practices have reduced transparency to District residents and taxpayers. By continually overestimating appropriations year after year, and appropriating fund balance that is not needed, the budgets presented are misleading because they indicated that the money would be used to finance operations. Additionally, a more transparent method to fund reserves would be to alert

taxpayers of the District's intention by including a provision in the budget to fund the reserves instead of annually transferring operating surpluses that were generated by overestimating appropriations.

Appendix C: Audit Methodology and Standards

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. We obtained an understanding of internal controls that we deemed significant within the context of the audit objective and assessed those controls. Information related to the scope of our work on internal controls, as well as the work performed in our audit procedures to achieve the audit objective and obtain valid audit evidence, included the following:

- We interviewed District officials and reviewed Board meeting minutes, resolutions, policies, and corrective action plans to gain an understanding of the budget process.
- We analyzed general fund financial records for fiscal years 2019-20 through 2022-23 and the previous OSC audit report to identify trends in operating results, fund balance and the real property tax levy.
- We reviewed the adopted general fund budgets from 2019-20 through 2022-23 to determine whether they were reasonable and structurally balanced by comparing adopted budgets with actual results of operations and analyzing significant budget-to-actual variances.
- We reviewed the results of operations from 2019-20 through 2022-23 and calculated surplus fund balance as a percentage of the upcoming year's appropriations for compliance with the statutory limit.
- We recalculated surplus fund balance as a percentage of the upcoming year's budgeted appropriations after adding back appropriated fund balance not used to fund the upcoming year's operations to determine whether it was within the statutory limit.
- We reviewed reserve fund balances as of June 30, 2023, to assess whether they were properly established and used and reasonably funded.
- We reviewed OSC's prior audit of the District, entitled *Financial Condition*, 2016M-300, and compared the reported general fund unrestricted and reserve fund balances to the District's current balances.

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

Regional Office Directory

www.osc.ny.gov/files/local-government/pdf/regional-directory.pdf

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

www.osc.ny.gov/local-government/publications

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

www.osc.ny.gov/local-government/fiscal-monitoring

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

www.osc.ny.gov/local-government/publications

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

www.osc.ny.gov/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.ny.gov/files/local-government/publications/pdf/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.ny.gov/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.ny.gov/local-government/publications

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.ny.gov/local-government/academy

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Division of Local Government and School Accountability
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<https://www.osc.ny.gov/local-government>

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