

Tuckahoe Common School District

Financial Condition

JANUARY 2019



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

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Report Highlights

Tuckahoe Common School District

Audit Objective

Determine whether the Board and District officials ensured that fund balance and restricted funds were reasonable.

Key Findings

District officials:

- Overestimated expenditures by an annual average of \$1.2 million (about 7 percent) from fiscal years 2014-15 through 2016-17.
- Appropriated a total of \$1.8 million (3 percent of the subsequent year's budgeted appropriations) in fund balance from fiscal years 2014-15 through 2016-17 that was not needed to fund operations.
- Overfunded three of the five reserves.

Key Recommendations

- Adopt realistic budgets based on historical or known trends.
- Use appropriated fund balance to fund operations.
- Use excess fund balance and reserves to benefit taxpayers.

District officials generally agreed with our recommendations and have initiated or indicated they planned to initiate corrective action.

Background

The Tuckahoe Common School District (District) is located in the Town of Southampton in Suffolk County. The three-member Board of Education (Board) is responsible for the District's financial and educational affairs.

The Superintendent of Schools is the District's chief executive officer and is responsible, along with other administrative staff, for day to day management under the Board's direction.

The Interim Business Official¹ oversees the District's business operations, including developing and administering the budget

Quick Facts

Employees	125 full and part time
Students	327
2016-17 Total Expenditures (actual)	\$18,090,018
2017-18 Budgeted Appropriations	\$20,167,600

Audit Period

July 1, 2016 – November 30, 2017. We extended the audit period back to July 1, 2014 and forward to June 30, 2018 to review fund balance trends, 2017-18 results of operations, and the 2018-19 adopted budget.

¹ The former Business Official's employment with the District ended January 2018.

Financial Condition

What Is Effective Financial Condition Management?

To effectively manage a district's financial condition, a board should adopt reasonable and structurally balanced budgets based on historical data or known trends, in which recurring revenues finance recurring expenditures and reasonable levels of fund balance are maintained. A board is responsible for estimating what the district will spend and what it will receive in revenue, estimating how much fund balance will be available at fiscal year-end and determining what the expected tax levy will be. Accurate budget estimates help ensure the tax levy is not greater than necessary.

Fund balance represents resources remaining from prior fiscal years that can be used to finance the next year's budget or set aside in reserve funds for specific purposes. A district may retain a portion of fund balance, referred to as unrestricted fund balance, to provide cash flow and a cushion against unforeseen events but should do so within statutory limits. Currently, the New York State Real Property Tax Law (RPTL)² limits the amount of unrestricted fund balance that a school district can retain to no more than 4 percent of the following year's budget.

When fund balance is appropriated in the budget, the expectation is that there will be an operating deficit (budgeted expenditures exceeding budgeted revenues), financed by the appropriated fund balance. This allows a district to use excess fund balance that it accumulated in prior years. Sound budgeting practices provide that adopted annual budgets should not appropriate fund balance that will not actually be needed to fund operations.

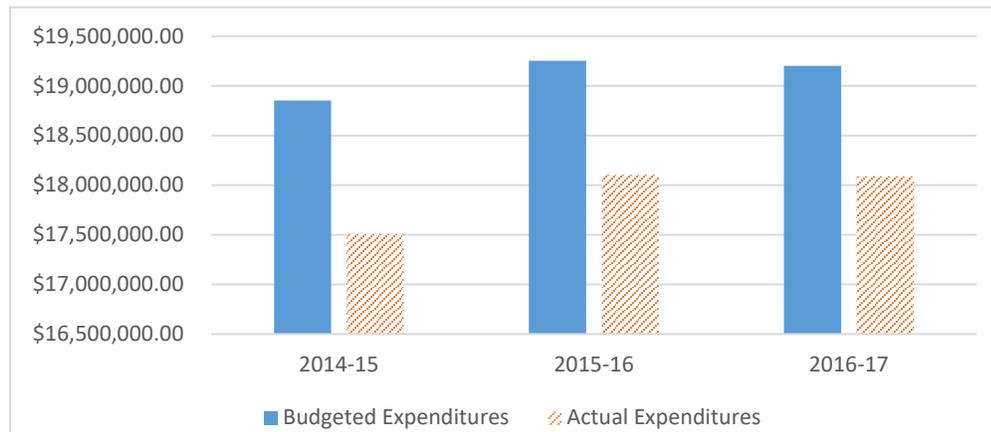
Budgeted Appropriations Were Overestimated

We compared the District's general fund budgeted expenditures to actual expenditures from 2014-15 through 2016-17 and found that District officials overestimated expenditures by more than \$3.6 million, about 7 percent of the total expenditures. As a result of the District routinely overestimating expenditures, taxes were higher than necessary to fund operations.

² New York State Real Property Tax Law (RPTL) Section 1318.

FIGURE 1

Overestimated Expenditures



The most significant portions of overestimated appropriations (82 percent) were for programs for students with disabilities, teaching regular school and employee benefits.

- In 2014-15, 76 percent of the \$1,346,657 variance was made up of programs for students with disabilities (\$639,617) and employee benefits (\$385,129³).
- In 2015-16, 99 percent of the \$1,147,575 variance was made up of programs for students with disabilities (\$745,367) and employee benefits (\$402,473⁴).
- In 2016-17, 81 percent of the \$1,111,820 variance was made up of regular school teaching (\$616,034) and employee benefits (\$280,488⁵).

In 2017-18, appropriations were overestimated by approximately \$1.5 million or 8 percent of the reported expenditures in 2017-18. The most significant portions of overestimated appropriations (86 percent) were for teaching regular school (\$860,480) and programs for students with disabilities (\$406,014).

We reviewed the District's 2018-19 budget and found that it increased by 5 percent from 2017-18. The accounts with large variances in 2017-18 – teaching regular school and students with disabilities – have again increased in the 2018-19 budget by approximately \$33,000 and \$402,000, respectively, even though the amounts in the 2017-18 budget were already much too high.

3 Includes health insurance variance of \$265,129.

4 Includes contribution to the teachers' retirement system variance of \$198,419.

5 Includes contribution to teachers' retirement system variance of \$136,361 and health insurance variance of \$99,260.

District officials informed us that the variance for students with disabilities was due to the high cost of special education and the uncertainty of students requiring special education moving into the District. They also told us that the variance for health insurance was because they built contingencies into the budget due to an anticipated increase in health insurance costs as a result of contract negotiations and uncertainties regarding a proposed merger with a neighboring school district. These contingencies also affected the budget for the District's contribution to the teachers' retirement system. Because the vote for the proposed merger failed in November 2014, this would affect the 2014-15 budget only. It would have no effect on variances in 2015-16 and 2016-17.

Although revenue estimates were generally reasonable,⁶ because of the overestimation of expenditures, the District did not achieve its planned operating deficits during the audit period. Instead, the District had operating surpluses totaling more than \$1.5 million⁷ over the three years we reviewed. As a result, taxpayers have been approving unreasonable budgets during this period. If the District had adopted more reasonable budgets, appropriated fund balance would have been used to finance District operations and the tax levy may have been reduced.

The District Appropriated Fund Balance That Was Not Needed to Fund Operations

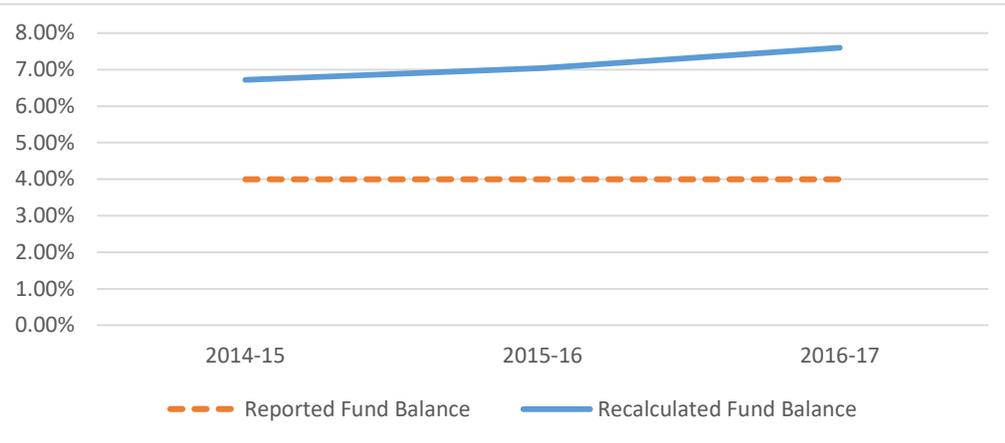
The District appropriated a total of \$1.8 million in fund balance (3 percent of the subsequent year's budgeted appropriations) from fiscal years 2014-15 through 2016-17 to finance the subsequent year's budget. Because the Board overestimated certain appropriations, the appropriated fund balance was not needed to finance the budget. By including appropriated fund balance in the budgets, it appeared that the District had less unrestricted fund balance than it actually had. As a result, the District reported unrestricted fund balance at the 4 percent statutory limit.⁸ However, when unused appropriated fund balance is added back to the reported unrestricted fund balance, the District's recalculated unrestricted fund balance ranged from 6.7 percent to 7.6 percent which, in effect, exceeded the statutory limit by between 2.7 to 3.6 percentage points (Figure 2).

⁶ On average, actual revenues exceeded budgeted revenues by less than 1 percent during the period reviewed.

⁷ The operating surpluses were \$324,416, \$517,508 and \$692,660 in the 2014-15, 2015-16 and 2016-17 fiscal years, respectively.

FIGURE 2

Unrestricted Funds at Year End



If this overestimation of expenditures had not occurred and the appropriated fund balance actually had been used to finance the budget, the District could have reduced the real property tax levies during the years we reviewed. For example, if the 2017-18 budget provided appropriations equal to what were actually needed and appropriated fund balance was actually used to lower taxes, the tax levy could have been reduced by \$1.41 million⁹ or 7.76 percent. For a homeowner with an assessed value of \$500,000, this would have resulted in a tax savings of \$307.¹⁰ The District’s practice of adopting budgets that result in the appropriation of fund balance that is not needed to finance operations is, in effect, a reservation of fund balance that is not provided for by statute.

The District appropriated \$850,000, a 17 percent increase from 2017-18, to finance expenditures in the 2018-19 adopted budget. District officials also appropriated reserves totaling \$185,553, which they had not done previously during the audit period. Additionally, officials told us they will continue to review and tighten their budget process.

How Should the District Properly Manage Reserve Funds?

Districts are legally allowed to reserve portions of fund balance to finance future costs (e.g., capital projects or retirement expenditures). District officials should

⁸ The District’s fund balance policy states that its target is to maintain an unassigned fund balance of 4 percent of the estimated annual operating expenditures for the ensuing fiscal year.

⁹ 2017-18 adopted budget without encumbrances less actual expenditures

¹⁰ See Appendix B for methodology.

ensure that reserve balances do not exceed the amount necessary to address long-term obligations or planned expenditures. The board should adopt a reserve policy, which is a formal written plan that indicates how the reserves will be funded, how much should be accumulated in the reserves and when the money will be used to finance related costs.

While school districts are generally not limited as to how much money can be held in reserves, the balances should be reasonable. The board should balance the intent for accumulating money for future identified needs with the obligation to ensure that the district's real property tax levy is not greater than necessary. Ideally, transfers to reserve funds should be included in the annual budget and not routinely funded at year end through unrestricted fund balance. Making clear provisions to raise resources for reserve funds explicit in the proposed budget will give voters and residents the opportunity to know the board's plan for funding reserves, which increases transparency. When appropriations for transfers to reserves are not anticipated in the annual budget, a board resolution is necessary to authorize the transfer of unrestricted fund balance to a reserve fund.

Three of the District's Reserve Funds Were Overfunded

The District had five reserves with a cumulative balance of approximately \$3.7 million as of June 30, 2017 (workers' compensation, unemployment, retirement contribution, employee benefits and accrued liability (EBALR) and capital). The workers' compensation, unemployment and EBALR reserves have no policy, plan or resolution to establish funding levels. Additionally, District officials exceeded the maximum funding level authorized by the Board for the retirement contribution reserve. Also, transfers from unrestricted fund balance into reserves were not approved through the budget or Board resolutions. Further, although the District's fund balance policy states that reserves are to be evaluated annually, the workers' compensation and unemployment reserve balances appear to be overfunded.

- The workers' compensation reserve is used to pay for workers' compensation benefits and the expenses to administer a workers' compensation self-insurance program. The reserve had a balance of \$245,841 as of June 30, 2014, which increased to \$930,419¹¹ as of June 30, 2017. The Board did not pass resolutions to approve transfers from the general fund of \$203,703 and \$480,143 at the completion of the 2013-14 and 2014-15 fiscal years, respectively. The District had no workers' compensation payments during the audit period and the workers' compensation liability was recorded in the financial statement as \$144,403 on June 30, 2017. As such, the reserve balance was \$786,016 more than the liability at that date (by more than six

¹¹ The increase consisted of transfers from unrestricted fund balance of \$683,846 and interest of \$732.

times). The District appropriated \$85,553 from this reserve to fund workers' compensation expenditures in the 2018-19 budget.

- The unemployment insurance reserve is used to reimburse the New York State Unemployment Insurance Fund for payments made to claimants when a school district has elected the "benefit reimbursement" method of funding the cost of unemployment benefits. The reserve had a balance of \$303,446 as of June 30, 2014, which increased to \$507,743 as of June 30, 2017.¹² The Board did not pass a resolution to approve additional funding of \$203,703 from unrestricted fund balance to the reserve at the end of the 2013-14 fiscal year. The District has not expended any of the reserve funds during the audit period. There were expenditures totaling \$27,416, or an average of \$9,139 annually, for unemployment costs. At this rate, the balance of \$507,743 would be sufficient to pay nearly 55 years of unemployment expenditures. District officials informed us that the reserve was funded in anticipation of a proposed merger with the Southampton School District, which was voted down in September 2014. The District appropriated \$100,000 from this reserve to fund unemployment expenditures in the 2018-19 budget.
- The retirement reserve is used to pay the District's retirement contribution to the New York State and Local Retirement System. The reserve had a balance of \$511,838 as of June 30, 2014, which increased to \$892,567 as of June 30, 2017.¹³ The Board did not pass a resolution to approve transfers for additional funding from unrestricted fund balance to the reserve of \$203,703 and \$136,067 at the completion of the 2013-14 and 2014-15 fiscal years, respectively. The District passed a resolution to approve the additional funding of \$40,017 at the completion of the 2015-16 fiscal year. However, the resolution was not approved until October 2017, which is after the transfer was reported in the financial statements as of June 30, 2017. Further, the resolution approved at the establishment of the reserve authorizes maximum funding of \$500,000 for this reserve. However, this reserve balance exceeded the authorized maximum funding level throughout the audit period for amounts ranging from \$11,838 as of June 30, 2014 to \$392,567 as of June 30, 2017. The District has not expended any of these reserve funds during the audit period although it had expenditures for retirement contributions totaling \$480,895, or an annual average of \$160,298. At this

¹² The increase consisted of transfers from unrestricted fund balance of \$203,703 and interest of \$594.

¹³ The increase consisted of transfers from unrestricted fund balance of \$379,787 and interest of \$942.

rate, the balance of \$892,567 would be sufficient to pay more than five years of expenditures.

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

What Do We Recommend?

The Board and District officials should:

1. Discontinue the practice of adopting budgets that result in the appropriation of unrestricted fund balance not used to fund District operations.
2. Use surplus funds as a financing source for:
 - a. Funding one time expenditures,
 - b. Funding needed reserves,
 - c. Paying off debt and
 - d. Reducing the tax levy.
3. Adopt budgets that include reasonable amounts for appropriations.
4. Use excess reserve funds identified to benefit District residents in accordance with statutory requirements.
5. Consider amending the District's fund balance policy to provide optimal funding levels and conditions under which each reserve will be utilized.
6. Ensure that annual proposed budgets include the amounts of appropriated fund balance planned to fund reserves as a way to enhance transparency to taxpayers. If the transfers are not anticipated in the budget, the Board should pass resolutions authorizing the amounts to be transferred into each reserve.
7. Review reserve balances annually to prevent accumulation of unneeded balances.

Appendix A: Response From District Officials



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SUPERINTENDENT

Mr. Leonard Skuggevik

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Mr. Robert E. Grisnik, Vice Chairman

Mr. Sean Hattrick, Trustee

January 7, 2019

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Division of Local Government and
School Accountability
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Re: Response to Draft Audit Report from the Tuckahoe Common School District

Dear Mr. McCracken,

We received your draft reports for Purchasing, Extra Classroom Activity Funds, and Financial Condition on December 6, 2018 and completed an exit conference with your representatives to discuss the accuracy and completeness of these reports on December 17, 2018.

It is our understanding that following our exit conference meeting certain discussions on information presented in the **Financial Condition** report regarding continuing trends in 2018 was removed. Also, language clarification regarding methodology was made to the **Extra Classroom Activity Funds** report.

With those adjustments made, we believe that the reports are presented accurately. Many of your recommendations have already been implemented to strengthen and improve our school operations.

The school district would like to thank you and your staff for their efforts in completing this audit. Please contact us if you need additional information and we look forward to receiving the final report.

Sincerely,

Leonard Skuggevik
Superintendent of Schools

Cc: Board of Trustees
Carl Fraser, Interim School Business Official
Katelyn Fretto, District Treasurer
Linda Springer, District Clerk- Executive Assistant

Appendix B: 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. To achieve the audit objective¹⁴ and obtain valid audit evidence, we performed the following audit procedures:

- We reviewed the District's fund balance policy to determine whether it provided guidance on funding levels of unrestricted fund balance. We also interviewed District officials to gain an understanding of the budgeting process and obtain an explanation for large variances.
- We reviewed audited financial statements from fiscal years 2014-15 through 2016-17 to obtain the ensuing year's budget, changes in reserve funds, unused reserves, unrestricted and appropriated fund balances and encumbrances, operating surpluses or deficits, and budgeted and actual revenues and expenditures. We recalculated the percentage of unrestricted fund balance by adding back unused appropriated fund balance.
- We reviewed the District's audited financial statements for the 2017-18 fiscal year to determine whether the District achieved its planned operating deficit and to determine expenditure variances for specific budget codes. We reviewed the District's 2018-19 budget to determine whether officials were again appropriating fund balance and whether the budget increased from the 2017-18 budget.
- To calculate the annual amount a homeowner with an assessed value of \$500,000 would have saved in taxes, we used the average property tax payment made by a homeowner as indicated by the District's 2017-18 budget documents. We also used the District's average assessed home as indicated in the District's 2018-19 budget brochure.
- We reviewed Board resolutions for the establishment of District reserves and the approval for the funding of reserves. We compared reserve balances to actual expenditures and relevant liability balances to determine whether reserve balances were reasonable.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

A written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within

¹⁴ We also issued two separate audit reports, *Tuckahoe Common School District – Purchasing (2018M-228)* and *Tuckahoe Common School District – Extra-Classroom Activity Funds (2018M-229)*.

90 days, pursuant to Section 35 of General Municipal Law, Section 2116-1(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 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. We encourage the Board to make the CAP available for public review in the Clerk's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

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

www.osc.state.ny.us/localgov/costsavings/index.htm

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

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

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

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

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

www.osc.state.ny.us/localgov/planbudget/index.htm

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

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf

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

www.osc.state.ny.us/localgov/finreporting/index.htm

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

www.osc.state.ny.us/localgov/researchpubs/index.htm

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

www.osc.state.ny.us/localgov/academy/index.htm

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