



Huntington Union Free School District Financial Condition

Report of Examination

Period Covered:

July 1, 2014 – September 30, 2015

2015M-356



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of District Officials and Corrective Action	2
FINANCIAL CONDITION	4
Overestimated Expenditures	4
Budgets and Fund Balance	6
Recommendations	7
APPENDIX A Response From District Officials	8
APPENDIX B Audit Methodology and Standards	11
APPENDIX C How to Obtain Additional Copies of the Report	12
APPENDIX D Local Regional Office Listing	13

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 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 Huntington Union Free School District, entitled Financial Condition. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Huntington Union Free School District (District) is located in the Town of Huntington in Suffolk 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 District financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction. The Superintendent, with assistance from the Assistant Superintendent for Finance and Management (Assistant Superintendent), is responsible for preparing the District's budgets.

The District operates eight schools with approximately 4,650 students and 1,000 employees. The District's budgeted appropriations for the 2015-16 fiscal year were approximately \$120.4 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 condition. Our audit addressed the following related question:

- Did the Board and District officials adopt reasonable budgets and effectively manage the District's financial condition?

Scope and Methodology

We examined the District's financial condition for the period July 1, 2014 through September 30, 2015. We extended our scope back to the 2012-13 fiscal year to evaluate financial trends.

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 B of this report. 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 the relevant population size and the sample selected for examination.

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 generally agreed with our recommendations and indicated they planned to initiate corrective action.

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

Financial Condition

The Board is responsible for adopting budgets that contain estimates of actual and necessary expenditures that are funded by realistic revenues. Sound budgets provide sufficient funding for necessary operations and help ensure that the real property tax levy is not greater than necessary. Prudent fiscal management includes establishing reserves needed to address long-term obligations or planned future expenditures. Once the Board has addressed those issues, any remaining fund balance, exclusive of amounts allowed by law to be retained to address cash flow and unexpected occurrences,¹ should be used to fund the District's operations.

The Board needs to improve the budget process to ensure it adopts reasonable budgets and effectively manages the District's financial condition. The District reported year-end unassigned fund balance at levels that essentially complied with the 4 percent fund balance limit for fiscal years 2012-13 through 2014-15. This was accomplished, in part, by appropriating fund balance and funding reserves at year-end. However, over the past three years, the Board appropriated nearly \$6.4 million of fund balance, which should have resulted in planned operating deficits each year. Because District officials overestimated expenditures in the adopted budgets, the District experienced large operating surpluses in each of those years. From 2012-13 through 2014-15, total actual revenues exceeded expenditures by as much as \$4.1 million and no amount of appropriated fund balance was used to finance operations. As a result, the District's tax levy may have been higher than necessary to fund District operations.

Overestimated Expenditures

When preparing the budget, the Board must estimate revenues, expenditures and the amount of fund balance that will be available at year end, some or all of which may be used to fund the ensuing year's appropriations. After taking these factors into account, the Board establishes the expected real property tax levy necessary to fund operations. Accurate estimates help ensure that the tax levy is not greater than necessary. Revenue and expenditure estimates should be developed based on prior years' operating results, past expenditure trends, anticipated future needs and available information related to projected changes in significant revenues and expenditures. Unrealistic budget estimates can mislead District residents and have a significant effect on the District's year-end fund balance and financial condition.

¹ New York State Real Property Tax Law limits the amount of fund balance that can be legally retained by District officials to no more than 4 percent of the next fiscal year's budgeted appropriations.

We compared the District’s budgeted revenues and expenditures with actual results of operations from 2012-13 through 2014-15. The District’s revenue estimates appeared reasonable and generally close to the actual revenues received. However, District officials consistently presented, and the Board approved, budgets which overestimated expenditures for these three years. As a result, District officials spent an average of approximately \$4.7 million less than planned each year. In addition to being more than \$4.9 million less than the 2014-15 budgeted appropriations, the 2014-15 actual expenditures were nearly \$2 million less than the 2013-14 budgeted appropriations and only \$1.1 million more than the 2012-13 budgeted appropriations, as shown in Figure 1.

	Budgeted Appropriations ^a	Actual ^b Expenditures	Overestimated Expenditures	Percentage of Overestimated Expenditures
2012-13	\$111,895,315	\$105,603,933	\$6,291,382	5.6%
2013-14	\$114,930,898	\$111,934,136	\$2,996,762	2.6%
2014-15	\$117,902,552	\$112,980,642	\$4,921,910	4.2%

^a Includes year-end encumbrances from the prior fiscal year
^b Includes year-end encumbrances for the fiscal year

Over the past three years, the majority of overestimated expenditures were for teaching – regular school, by as much as \$1.9 million (6.5 percent); employee benefits, by as much as \$4.5 million (15.8 percent); and interest on debt service, by as much as \$573,067 (673.2 percent).² The Superintendent told us that the District typically budgets conservatively for teacher salaries (a component of teaching – regular school expenditures) and employee benefits so that there will be sufficient funds available for the positions needed to meet student needs. The Superintendent explained that the budget variances we found were due to conservative estimates in enrollment increases related to the construction of a new residential development. The variances also occurred because of the effect of staffing and other expenditures related to reopening one of the District’s buildings and reinstating a full-day kindergarten program, which occurred a couple of years later than District officials anticipated. However, while variances in teaching – regular school expenditures and the retirement contribution benefit decreased, other components of employee benefits increased significantly over the three-year period.

Because the Board adopted budgets with overly conservative expenditure estimates, unassigned fund balance increased beyond 4

² The largest variances in employee benefits and interest on debt service occurred in 2013-14 and the largest variance in teaching – regular school occurred in 2012-13.

**Budgets and
Fund Balance**

percent of the ensuing year’s budget. Had District officials used more reasonable budget estimates, they could have avoided the accumulation of unassigned fund balance in excess of the 4 percent limit and possibly increased reserves or reduced the tax levy.

Fund balance represents resources remaining from prior fiscal years. School districts may retain a portion of fund balance at year-end for purposes of cash flow or unexpected expenditures. However, because the amount of unassigned fund balance retained cannot exceed 4 percent of the ensuing year’s budgeted appropriations, any excess amounts should be used to lower real property taxes, increase necessary reserve funds, pay for one-time expenditures or pay down debt. Moreover, District officials should not appropriate fund balance or establish reserve funds simply to remove fund balance amounts from the calculation of the statutory limit.

When fund balance is appropriated as a funding source, the expectation is that there will be a planned operating deficit in the ensuing fiscal year financed by the amount of appropriated fund balance. Conversely, an operating surplus (when budgeted appropriations are not fully expended or expected revenues are greater than estimated) results in an increase in year-end fund balance. Sound budget practices provide that adopted annual budgets do not routinely appropriate fund balance that will not be used to fund operations. Instead of decreasing fund balance, as reflected in the budget presented to taxpayers, this practice increases the amount of fund balance.

Over the past three years (2012-13 through 2014-15), District officials appropriated almost \$6.4 million of fund balance for the annual budgets for these years. This appropriation of fund balance made it appear that the District’s unassigned fund balance was within the 4 percent statutory limit. However, the District experienced operating surpluses in each of these three years and no amount of appropriated fund balance was used to finance operations. When unused appropriated fund balance is added back, the District’s recalculated unassigned fund balance exceeded the statutory limit, ranging between 5.7 and 5.9 percent of the ensuing year’s appropriations, as indicated in Figure 2.

Figure 2: Unassigned Fund Balance at Year-End and Unused Fund Balance

	2012-13	2013-14	2014-15
Total Unassigned Fund Balance at Year-End	\$4,588,183	\$4,704,574	\$4,814,318
Unassigned Fund Balance as a Percentage of Ensuuing Year’s Appropriations	4.0%	4.0%	4.0%
Add: Appropriated Fund Balance Not Used to Fund Ensuuing Year’s Budget	\$2,127,376	\$2,180,953	\$2,049,074
Total Recalculated Unassigned Funds	\$6,715,559	\$6,885,527	\$6,863,392
Recalculated Fund Balance as Percentage of Ensuuing Year’s Budget	5.9%	5.9%	5.7%

Overestimating expenditures and unnecessarily appropriating fund balance caused available fund balance to appear to be within the legal limit. As a result, the Board and District officials may not have adequately presented the District's financial condition to its residents.

Recommendations

The Board should:

1. Develop procedures to ensure it adopts more reasonable budgets to avoid raising more real property taxes than necessary.
2. Discontinue the practice of adopting budgets that result in the appropriation of unassigned fund balance that will not be used to fund District operations.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Huntington Union Free School District

"A Tradition of Excellence since 1657"

James W. Polansky

Superintendent of Schools

February 24, 2016

Ira McCracken, Chief Examiner
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533

Dear Mr. McCracken:

We would like to thank the examiners from the State Comptroller's office for their efforts in reviewing the internal controls and financial condition of the Huntington Union Free School District. We also genuinely appreciate the examiners' time and attention to the items discussed during our exit meeting.

As mentioned, there are several significant items that warrant attention and consideration when reviewing the cited budget lines between 2012-13 and 2014-15. In 2011, the District closed an intermediate school housing students in grades 4-6 and concurrently transitioned to a half-day kindergarten program. As a result, the District exceeded 94 teachers. Additionally, 21 teachers took advantage of a retirement incentive during the same time frame. The intermediate school students were resituated in the District's remaining five elementary schools.

It was anticipated that the District would restart a school program at the closed facility and return to full-day kindergarten in the near future. Both would clearly contribute to the need for an increase in budgeted appropriations for teaching and support staff. While the District would have liked to accomplish the building's reopening and kindergarten restoration sooner, the time required for planning and implementation was more extensive than expected.

The closed school was reopened as a STEM Magnet in 2013-14 and enrollment has expanded each year since. It currently houses twelve classes in grades 3-6. The full-day kindergarten program was ultimately restored in 2014-15, and required an expected maximum of eight more teachers each year than a half-day program.

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In addition to the aforesaid factors, a new *AvalonBay* property was recently introduced within district boundaries. The timeline for unit delivery was unclear from the onset. The planning began several years prior, but the development actually opened in September 2014. It included 379 units, with the propensity to add several hundred school-age students based on the number of bedrooms per unit.

Huntington has also faced the need to address financially the uncertainty associated with increasing enrollments, as well as the new requirements associated with amended Commissioner Part 154 regulations designed to provide English language learners with the education that they deserve.

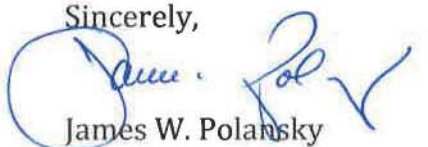
The District acknowledges that in the years examined, the level of appropriated fund balance did not represent the amount needed to support an actual operating deficit. Our budget is an estimated spending and revenue support plan. As such, the District will continue to appropriate fund balance at a level estimated to address a potential operating deficit, but will always strive to spend within budgetary constraints and access available revenues to offset that spending.

Appropriations have served to reduce the tax levy each year. Even with the option of allocating fund balance to underfunded reserves (e.g., Employee Benefit Accrued Liability Reserve) according to the District's reserve plan, the District instead chose to reduce the taxpayer burden.

The District has worked diligently in recent years to realize savings and maintain its transparency in all regards. This can be evidenced in annual budget development presentations, all of which are made in public and posted on the District's website. We will continue to do so in the years to come.

Again, on behalf of the Board of Education and administration, I'd like to thank you for your time, efforts and consideration.

Sincerely,



James W. Polansky
Superintendent of Schools

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials and staff to obtain an understanding of budget practices and the rationale behind the District's financial decisions.
- We reviewed the Board minutes and policies and procedures regarding the District's fund balance and budget practices.
- We reviewed annual financial statements and the accompanying management letters prepared by the District's independent public accountant.
- We analyzed revenue and expenditure trends and budget-to-actual comparisons for the general fund for fiscal years 2012-13 through 2014-15 and calculated the percentage of unexpended funds compared with actual expenditures.
- We reviewed and analyzed reported fund balance levels in comparison with the amounts appropriated in adopted budgets.

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.

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