Office of the New York State Comptroller

Division of Local Government & School Accountability

Plainview-Old Bethpage Central School District

Financial Condition

Report of Examination

Period Covered:

July 1, 2013 — August 31, 2014

2015M-89

Thomas P. DiNapoli

Table of Contents

State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

July 2015

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 Plainview-Old Bethpage Central 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 Plainview-Old Bethpage Central School District (District) is located in the Town of Oyster Bay, Nassau County. The District is governed by the Board of Education (Board), 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 (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for day-to-day District management under the Board's direction.

The District operates eight schools with approximately 5,200 students and 875 employees. The District's expenditures for the 2013-14 fiscal year totaled $133 million, funded primarily with revenues from real property taxes and State and federal aid. Budgeted appropriations for the 2014-15 fiscal year were $144 million.

Objective

The objective of our audit was to evaluate the District's financial operations and use of fund balance. Our audit addressed the following related question:

- Did the Board and District officials effectively manage the District's financial condition by ensuring that budget estimates and reserve funds were reasonable?

Scope and Methodology

We examined the District's financial records for the period July 1, 2013 through August 31, 2014. We expanded our scope back to July 1, 2009 to analyze the District's financial condition and to provide perspective and background information.

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 is 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 many of our findings. Appendix B includes our comments on issues raised in the District's response.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the 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 and Superintendent are responsible for adopting budgets with estimates of actual and necessary expenditures that are funded by realistic revenues. The budget should accurately depict the District's financial activity, while also using available resources so that the tax burden is not greater than necessary. Officials should manage unexpended surplus funds[1] prudently and in accordance with statutes, including establishing reserve funds to address long-term obligations or planned expenditures. The Board should fund reserves at appropriate levels, monitor reserve amounts and use them as intended. Additionally, District officials should adopt a policy for the use of reserve funds and ensure that taxpayers are fully informed of all reserve fund activity. Once the Board has addressed these issues, any remaining fund balance, except for the amount allowed by law to be retained,[2] should be used appropriately. The Board may, at its discretion, appropriate available fund balance to help finance the next year's expenditures.

The District reported year-end unrestricted fund balance at levels that essentially complied with the 4 percent fund balance limit for fiscal years 2009-10 through 2013-14. This was accomplished, in part, by appropriating fund balance totaling more than $20 million to fund ensuing years' budgets and using surpluses to fund reserves. The appropriation of fund balance should have resulted in planned operating deficits.[3] However, because the District significantly overestimated expenditures in its adopted budgets, it experienced large operating surpluses, and, therefore, none of the appropriated

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[1] The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: non-spendable, restricted and unrestricted (comprising committed, assigned and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54) and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget, amounts reserved for insurance recovery and tax reduction and encumbrances included in committed and assigned fund balance (after Statement 54).

[2] New York State Real Property Tax Law limits the amount of unexpended surplus funds a school district can retain to no more than 4 percent of the next year's budgetary appropriations. Such funds can be used to address cash flow and unexpected occurrences.

[3] A planned operating deficit occurs when a board purposely budgets for appropriations that exceed estimated revenues, with the difference to be funded by appropriating fund balance.

fund balance was used to finance operations. In effect, the District kept year-end fund balance levels artificially low and accumulated money that could have been put to productive use. Additionally, because District officials did not include the funding of reserves in the annual budget, the District's use of taxpayers' money was not sufficiently transparent.

Budgeting and Use of Fund Balance

In preparing a realistic budget, the Board must estimate revenues, expenditures and the amount of unexpended surplus funds that will be available at fiscal 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 tax levy necessary to fund operations. 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 or expenditures.

When fund balance is appropriated as a funding source, a planned operating deficit is expected in the ensuing fiscal year. To ensure a structurally balanced budget, the planned deficit is financed by appropriating fund balance. Conversely, an operating surplus (when budgeted appropriations are underexpended, expected revenues are greater than estimated, or both) increases the total year-end fund balance and can indicate that budgets are not realistic. The routine appropriation of fund balance that is actually not needed misleads taxpayers because the budget indicates that fund balance will be used, when in fact those moneys are not being used to fund appropriations.

<u>Overestimated Expenditures</u> – District officials consistently presented, and the Board approved, budgets with significantly overestimated appropriations. The overestimated expenditures totaled $36.5 million over the five-year period July 1, 2009 through June 30, 2014, an average of about $7.3 million per year.

Figure 1: General Fund Expenditures – Budget vs. Actual

Fiscal Year	Budgeted Appropriations[a]	Actual Expenditures	Overestimated Appropriations	Variance Percentage
2009-10	$128,152,336	$119,210,184	$8,942,152	7.0%
2010-11	$131,377,749	$125,594,098	$5,783,651	4.4%
2011-12	$134,527,122	$127,287,710	$7,239,412	5.4%
2012-13	$137,610,856	$132,034,504	$5,576,352	4.1%
2013-14	$141,830,520	$132,928,325	$8,902,195	6.3%
		Total Expenditure Variance	**$36,443,762**	

[a] Includes year-end encumbrances from the prior fiscal year

The overestimated appropriations were distributed throughout the adopted budgets. For example, over the five-year period, District officials overestimated expenditures for health insurance by $5.9 million, special education instruction by $5.4 million and contract transportation by $2.8 million. As a result, actual unexpended surplus funds increased beyond 4 percent of the ensuing year's budget.

The 2014-15 adopted budget included appropriations totaling $144,639,038. While representing an increase of 2 percent over 2013-14 budgeted appropriations, this amount equates to an increase of almost 9 percent over the actual expenditures for that year (which were $8.9 million less than budgeted). Such underspending of budgeted appropriations – due to the District's unrealistic budgeting practices – is likely to further increase surplus funds.

<u>Unexpended Surplus Funds</u> – 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 expenses. Unexpended surplus funds that exceed the statutory limit should be used to lower real property taxes, increase necessary reserve funds, pay for one-time expenses or pay down debt. When fund balance is appropriated as a funding source, it reduces the fund balance included in the 4 percent calculation. District officials should not appropriate unexpended surplus funds or reserve funds simply to circumvent the statutory limit.

District officials' appropriation of fund balance aggregated to about $18.4 million to fund District operations for the years 2009-10 through 2013-14 with an average of about $3.7 million per year, which should have resulted in planned operating deficits each year. However, the District experienced operating surpluses in each of the five fiscal years. For that period, total actual revenues exceeded actual expenditures by more than $22 million.[4] Therefore, the District did not need any of the $18.4 million of fund balance appropriated during the same period.

[4] The District reported a book deficit of $913,337 in 2011-12 on its audited financial statements, which was the result of a $4.4 million transfer to the capital fund reported as an expenditure. The District actually had an operating surplus of $3.5 million in 2011-12 when not taking this transfer into account.

Figure 2: Unrestricted Funds at Year End

	2009-10	2010-11	2011-12	2012-13	2013-14
Beginning Unrestricted Funds	$7,974,782	$9,010,856	$9,778,203	$10,049,366	$10,533,770
Plus: Operating Surplus	$8,055,924	$2,834,034	$3,451,166	$2,713,396	$5,062,030
Unrestricted Funds Subtotal	$16,030,706	$11,844,890	$13,229,369	$12,762,762	$15,595,800
Less: Appropriated Fund Balance for the Ensuing Year	$3,286,398	$4,077,021	$4,257,021	$4,407,021	$4,747,021
Less: Transfers to Reserves	$7,019,850	$2,066,687	$3,180,000	$2,228,993	$4,377,366
Less: Encumbrances	$488,904	$333,434	$346,897	$472,425	$685,851
Total Reported Unrestricted Funds at Year End	**$5,235,554**	**$5,367,748**	**5,445,451**	**5,654,323**	**$5,785,562**
Ensuing Year's Budgeted Appropriations	$131,377,749	$134,527,122	$137,610,856	$141,830,520	$144,639,038
Reported Unrestricted Funds as Percentage of Ensuing Year's Budget	3.99%	3.99%	3.96%	3.99%	4.00%
Appropriated Fund Balance from the Prior Year Not Used	$2,400,000	$3,286,398	$4,077,021	$4,257,021	$4,407,021
Total Actual Unrestricted Funds[a]	**$7,635,554**	**$8,654,146**	**$9,522,472**	**$9,911,344**	**$10,192,583**
Actual Unrestricted Funds as Percentage of Ensuing Year's Budget	5.81%	6.43%	6.92%	6.99%	7.05%

[a] Total Reported Unrestricted Funds at Year End plus Appropriated Fund Balance Not Used

The District reported year-end unexpended surplus funds in the general fund at levels that essentially complied with the 4 percent fund balance limit. This was accomplished, in part, by appropriating fund balance and funding reserves at year end. For each of these five fiscal years, the District accumulated unexpended surplus funds of at least $7.7 million in the general fund because it did not use the appropriated fund balance included in its budgets. Therefore, surplus funds at the end of each of the five fiscal years reviewed were effectively greater than the legally allowable amount. The District's practice of consistently planning operating deficits by appropriating unexpended surplus funds that were not needed, and transferring the resulting surplus to fund reserves at the end of each fiscal year (see next section), in effect circumvented the statutory limitation of retaining no more than 4 percent of the ensuing year's appropriations.

The overestimation of expenditures and subsequent transferring of surplus funds to reserves caused available fund balance to appear to be within the legal requirement. Had District officials used more realistic budget estimates and informed residents of their intent to increase reserve funds during the budget process, they could have avoided the accumulation of excess fund balances, funded reserves with voters' approval[5] and possibly reduced the tax levy.

[5] Voters approved the funding of two capital reserves during the audit period totaling $10 million. However, because the funding amounts were not included in any of the subsequent voter-approved budgets, taxpayers had no way of knowing how much would be set aside each year to fund these reserves.

Reserve Funds

Reserve funds may be established by Board action, in accordance with applicable laws, and are used to provide financing only for specific purposes, such as New York State and Local Retirement System (NYSLRS) contributions. The statutes under which the reserves are established determine how the reserves may be funded, expended or discontinued. Generally, school districts are not limited as to how much money can be held in reserves. However, it is important that school districts maintain reserve balances that are reasonable. Funding reserves at greater than reasonable levels essentially results in real property tax levies that are higher than necessary. The District has six reserves with balances totaling $26.1 million as of June 30, 2014.[6]

A governing board that regularly establishes and finances reserve funds should adopt a written policy that communicates to taxpayers why the money is being set aside, the financial objectives for the reserves, optimal funding levels and conditions under which the assets will be used or replenished. Reserve funds are typically funded from amounts raised through the annual budget process, transfers from unexpended balances of existing appropriations and surplus moneys. Reserve fund transactions should be transparent to the public. Ideally, District officials should include in the current year's adopted annual budget, developed the previous fiscal year, the amounts they anticipate placing in reserve funds. By making provisions to raise resources for reserve funds explicit in the proposed budget, the Board would give District voters and residents an opportunity to know its plan for funding reserves.

<u>Funding Reserves</u> – The District has a detailed Board-adopted plan for each of its reserves. While the plan provides for either "excess fund balance" or "unanticipated revenues" as funding sources, it does not indicate that the funding of reserves should be estimated in the annual budget process. Therefore, the source of reserve funding over that last five fiscal years has been operating surpluses that were realized at the end of the fiscal year. The Board passed resolutions at the end of each fiscal year 2009-10 through 2013-14 setting a limit for reserve fund balances, but the resolutions did not specify the amounts to be transferred.

At the end of the five fiscal years reviewed, the District allocated a net total of $14.5[7] million to its reserves, all from operating surpluses.

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[6] Two capital reserves totaling $5,238,763, an unemployment insurance reserve of $849,917, an employee benefits accrued liability reserve of $7,343,365, a repair reserve of $752,488 and a retirement contribution reserve of $11,899,727

[7] The net amount is the total difference between amounts transferred in and out of the reserves, as follows: $849,917 for unemployment insurance; $7,823,863 for retirement contribution; ($156,635) for employee benefits accrued liability; $5,238,763 for capital; and $752,488 for repairs.

For example, the District made about $4.4 million of unbudgeted transfers into its reserves for the 2013-14 fiscal year. District officials made accounting entries dated June 30, 2014 transferring the $4.4 million into the reserves after the District ended the fiscal year with a $5 million operating surplus. Although the Board had adopted a detailed reserve plan, these transfers were not included in the 2013-14 budget presented to taxpayers for approval; therefore, District taxpayers did not know how much would be placed in reserves until the end of the fiscal year.

<u>Retirement Contribution</u> – In June 2008, the Board established a retirement contribution reserve to pay future employer contributions to the NYSLRS. Each year since the reserve was established, the Board adopted a reserve plan that established a funding limit for the reserve, which was calculated by projecting three years of future retirement costs. The reserve plan also includes conditions for the use of the retirement reserve's assets. The plan calls for "annual use of this fund with amounts used to decrease slowly over eight years (ending in 2020-21) so as not to create a revenue shortfall when these funds are exhausted. At this time, the plan calls for the use of all but $100,000 of the balance. However, should future years allow, funds used would be replaced."

As of June 30, 2014, the District reported a retirement reserve totaling $11.9 million, which was the Board-authorized limit for the year. However, the District's average annual retirement contribution cost for the last three fiscal years (2011-12, 2012-13 and 2013-14) was $2.6 million. As such, the current balance would pay the District's average retirement contribution costs for over four years. Further, the Board has never appropriated any amount from this reserve for retirement costs, and in any case – because of the significant surpluses in each of the three fiscal years – the District did not need any retirement reserve funds. We question whether maintaining such a balance is in the best interest of District taxpayers.

District officials' practice of not disclosing their intent to fund District reserves in the budget presented to the voters and of maintaining excessive funds in the retirement contribution reserve resulted in the withholding of significant funds from productive use and in the levy of more property taxes than necessary.

Recommendations

The Board and District officials should:

1. Develop and adopt budgets that include realistic expenditure estimates based on contractual and historical data.

2. Discontinue appropriating fund balance that is not needed to fund District operations.

3. Develop a plan to use excess unexpended surplus funds in a manner that benefits District taxpayers. Such uses could include, but are not limited to:

   - Paying off debt.

   - Financing one-time expenditures.

   - Reducing District property taxes.

4. Ensure that budgets presented to the voters for approval are transparent and include the Board's intent, if any, to increase reserve funds. The budget should quantify such intended increases as specific appropriation amounts.

5. Re-evaluate the funding limit established for the retirement contribution reserve fund to more closely reflect trends in the District's actual retirement contribution expenditures.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

PLAINVIEW-OLD BETHPAGE CENTRAL SCHOOL DISTRICT
106 Washington Avenue, Plainview, New York 11803
www.pobschools.org

Dr. Lorna R. Lewis
Superintendent of Schools

July 10, 2015

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

RE: Plainview-Old Bethpage Central School District Response to Comptroller's Office Audit Report for the Period July 1, 2013 – August 31, 2014

Dear Mr. McCracken:

On behalf of the Plainview-Old Bethpage CSD I would like to thank you for this opportunity to respond to the Financial Condition Report for the period of July 1, 2013 – August 31, 2014. The District acknowledges and values your recommendations for improvement.

It is the District's goal to provide financial stability for our educational institution while protecting and preserving our distinguished academic and extracurricular programs, maintaining the structural integrity of our buildings and protecting the interests of our taxpayers. This all was accomplished while operating under the state mandated tax cap. The District has always been transparent in all aspects of its budgeting and financial operations through the public board meetings, newsletters and postings on the District's website.

BUDGETED EXPENDITURES:

When preparing a budget that meets the needs of our students the District estimates its revenues and expenditures based on prior years' operating results, past expenditure trends, anticipated future needs and available information at the time the budget is developed. In following the Generally Accepted Accounting Principle of Conservatism we do build in contingencies in the following costly and unpredictable areas:

- **Transportation** - Total 5-year budget: $37.7 million
  Total variance: $2.8 million

Over the five-year period tested, the District made a concerted effort to become much more efficient in transportation and routes. This was achieved by limiting the number of bus routes thereby reducing the overall number of busses. When the budget is developed for the subsequent year the Transportation Office does not necessarily always know if these efficiencies can be achieved. Therefore, there are years that in addition to a contingency route we also did not use some planned vehicles, thus resulting in a cost savings. Additionally, we project CPI in our budget, which is typically not set until the first week of June, also resulting in a variance between budget and actual.

See Note 1 Page 17

- **Teaching – Regular School** - Total 5-year budget: $230.7 million
  Total variance: $4.8 million

We have analyzed the regular teacher budget codes, which are found in function area 2110. This area has a total of 136 budget codes of which most of the budget codes support textbooks, teacher salaries, supplies, and equipment for our schools. Most of the dollar amounts are in two budget codes – 2110.120 for grades K-6 teachers, and 2110.130 for grades 7-12 teachers. These two codes total $40,000,000 and represent the salaries for approximately 360 teachers.

Budgets are adopted in April, one month prior to the retirement notification date of May 15 stated in the collective bargaining agreement. We therefore present budgets that reflect existing staff as we are unaware of the number of teachers returning in any given year. Over the five-year test period, we had 56 retirees. A typical difference in just salary is approximately $48,000 per retiree or nearly $2.7 million based on 56 retirees. When including benefits, which is not part of the regular teaching budget code, the difference per retiree can be as large as $60,000, for a total variance of $3.36 million. Retirees and unused contingency positions are the two largest contributing factors for the variance in this budget area.

- **Programs for Students with Disabilities** - Total 5-year budget: $74.8 million
  Total variance: $5.4 million

This code covers an area of unpredictable changes. A new entrant has the potential of significant budgetary impact. The majority of this budget variance is in the area of contingency placements stemming from public school tuition, private school tuition, and BOCES placements. We have historically included nine to eleven contingency placements annually between these three areas. There have been years when we have exceeded our contingency placements. These placements can range in cost per unit by $45,000 to $95,000 annually. This code also includes 78 staff positions and will undoubtedly have a variance when a teacher retires.

Failure to budget for contingency placements and instead fund these costs by using our 4% unassigned fund balance to support any changes in placements as determined by the CSE or new enrollees over the summer may lead to future fiscal vulnerabilities and place undue fiscal pressure on future budgets. This we believe is not a practice that serves our students well.

See Note 2 Page 17

- **Health Insurance** - Total 5-year budget: $59.7 million
  Total variance: $5.9 million

Prior to 2010, the average increase in health insurance was 10%. The rate of the District's required health insurance plan, the Empire Plan, is determined on the calendar year. Therefore, we use a projection to predict the second half of our health insurance rates during each budget cycle.

Based on industry predictions over the past five years we have budgeted between 12% and 15% annually as this range. However, in 2010 the State began to utilize a $750M excess reserve to help reduce the average increase between 2% and 6% annually. We have never been informed when this excess reserve fund would run out, returning districts to higher increases. Additionally, the total financial impact related to the Affordable Care Act has yet to be determined. Therefore, we used these conservative budget practices to protect the financial status of the District and this has resulted in unexpended funds at year end.

In all expenditure areas we work throughout the year to achieve savings and efficiencies through utilizing cooperative purchasing and re-negotiating vendor contracts and pricing. These efficiencies are not known during the budget process and therefore actual costs would be less than amounts budgeted.

During the 2015-16 budget process based on historical data and the current fiscal strength of our district we have reduced our contingencies in the areas of special education, transportation, and health insurance as suggested by the report.

UNEXPENDED SURPLUS FUNDS:
With regards to unexpended surplus funds which are generated from the areas listed above this report states "School districts may retain a portion of fund balance at year end for purposes of cash flow or unexpected expenses. Unexpended surplus funds that exceed the statutory limit should be used to lower real property taxes, increase necessary reserve funds, pay for one-time expenses, or pay down debt." As recommended above the District has used surplus funds productively by allocating a portion of the funds to offset and reduce the tax levy of the subsequent year and then fund necessary reserves which allow us to invest in maintaining our buildings and to weather years of uncertain, sky-rocketing medical and retirement costs – costs which the District has no control over. Over the five year period the unexpended surplus funds have been used follows:

See Note 3 Page 17

Fiscal Year	2009-10	2010-11	2011-12	2012-13	2013-14	Total
Surplus from Unexpended Funds	$ 8,942,152	$ 5,783,651	$ 7,239,412	$ 5,576,352	$ 8,902,195	$ 36,443,762
Reduction of Next Year's Tax Levy	$ (3,286,398)	$ (4,077,021)	$ (4,257,021)	$ (4,407,021)	$ (4,747,021)	$ (20,774,482)
Encumbrances Included in Surplus	$ (488,904)	$ (333,434)	$ (346,897)	$ (472,425)	$ (685,851)	$ (2,327,511)
Capital Projects Reserve	$ (4,365,098)	$ (434,902)	$ -	$ (1,812)	$ (4,801,451)	$ (9,603,263)
(Increase)/Decrease To Other Reserves & Unassigned Fund Balance	$ (801,752)	$ (938,294)	$ (2,635,494)	$ (695,094)	$ 1,332,128	$ (3,738,506)
Total Use of Unexpended Funds	$ (8,942,152)	$ (5,783,651)	$ (7,239,412)	$ (5,576,352)	$ (8,902,195)	$ (36,443,762)

See Note 4 Page 17

The District has returned **$ 20,774,482** of unexpended funds to lower the tax levy during the above five-year period. Of the remaining unexpended funds, $2,327,511 represented encumbrances included in the unexpended funds amount, $9,603,263 funded capital reserve projects and the $3,738,506 balance was used to fund reserves such as unemployment insurance, retirement contributions, employee benefit accrued liability and repair reserves as well as maintain the State's suggested funding limit of unassigned fund balance at 4%.

See Note 3 Page 17

RESERVE FUNDS:
The practice of funding reserves is a sound, financial practice sanctioned by New York State. Reserves are essentially a savings account which protects the District from unanticipated costs. The following is from page 1 of the Office of the New York State Comptroller's Division of Local Government and School Accountability Management Reserve Funds Guide "The saving for future projects, acquisitions, and other allowable purposes is an important planning consideration for local governments and school districts. Reserve funds provide a mechanism for legally saving money to finance all or part of future infrastructure, equipment, and other requirements. Reserve funds can also provide a degree of financial stability by reducing reliance on indebtedness to finance capital projects and acquisitions. In uncertain economic times, reserve funds can also provide officials with a welcomed budgetary option that can help mitigate the need to cut services or to raise taxes. In good times, money not needed for current purposes can often be set aside in reserves for future use. In addition to reserve funds, maintaining a reasonable amount of undesignated fund balance within operating funds is another important financial consideration for local governments and school districts. A reasonable level of unreserved, unappropriated fund balance provides a cushion for unforeseen expenditures or revenue shortfalls and helps to ensure that adequate cash flow is available to meet the cost of operations. Combining a reasonable level of undesignated fund balance with specific legally established reserve funds provides resources for both unanticipated events and other identified or planned needs."

As far as funding those reserves the guidance provided on page 1 of the Office of the New York State Comptroller's Division of Local Government and School Accountability Management Reserve Funds Guide states "Because of the complexity of some of the legal requirements relating to the establishment, funding, expenditure, and dissolution of reserve funds, we encourage local officials to consult with their municipal attorney and to exercise professional judgment in determining how best to include reserve funds in the overall financial management policies of their government or school district." Thus the District relies on guidance from its legal and fiscal advisors as to appropriate funding levels of the reserves. Additionally the district's unassigned fund balance is at the 4% amount as prescribed by law.

See Note 5 Page 17

RETIREMENT CONTRIBUTIONS:
The Comptroller's office offers the following advice for funding reserves as stated in the Office of the New York State Comptroller's Division of Local Government and School Accountability Management Reserve Funds Guide "Because of the complexity of some of the legal requirements relating to the establishment, funding, expenditure, and dissolution of reserve funds, we encourage local officials to consult with their municipal attorney and to exercise professional judgment in determining how best to include reserve funds in the overall financial management policies of their government or school district." Thus following the advice

contained in the Guide, the District has reserved 3 - 4 years' worth of retirement contributions based on advice from our fiscal advisors.

See Note 6 Page 18

SUMMARY:

In 2005, Plainview-Old Bethpage Central School District was one of a few school districts in New York State that was not fully accrued for its TRS liability (over $3,000,000 deficit). Additionally, the District issued tax anticipation notes in the amount of $17,500,000 at a borrowing cost of over $600,000 annually. Through a multi-year plan we paid back our TRS liability, built reserves and eliminated tax anticipation note borrowing and expense. We also utilized two capital reserve funds totaling almost $10,000,000 for needed capital work, without any borrowing costs. These capital projects will produce a revenue stream of nearly $3.5 million in the form of building aid. When the District refinanced its outstanding debt, saving over $1.2 million in interest, our interest rate was lower than market due to our AAA bond rating, which was awarded based on the financial health of the District.

The current financial position of the Plainview-Old Bethpage Central School District has positioned us to respond to future anticipated financial challenges, finance daily operations without the interest cost of borrowing funds, maintain a AAA bond rating (further reducing the interest costs on any future borrowings) and preserve and protect our instructional programs. The strategic use of our reserves allowed the District to respond to over $6,000,000 of New York State aid reductions over the last 5 years related to the GAP elimination adjustments without cutting programs.

The 2015-16 budget already reflects our adoption of some of your recommendations. We appreciate the suggestions you have offered to help us maintain a healthy financial foot print for a bright future for our Plainview-Old Bethpage students.

Sincerely,

Lorna R Lewis

Dr. Lorna R. Lewis
Superintendent of Schools

LRL:mp

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

Our report does not address the District's budget estimates for Teaching – Regular School. While these estimates may have been realistic over the past five years, the District's estimates for the rest of the budget have shown a variance from budgeted to actual expenditures of over 7 percent, or almost $32 million, during the same period.

Note 2

The Board included inflated estimates of expenditures throughout the District's adopted budgets, which resulted in operating surpluses totaling more than $22 million over the last five years. We do not believe that the District requires this degree of financial cushion to fund unpredictable contingency placements.

Note 3

The District's tax levy was not reduced by appropriating fund balance. In the District's case, appropriated fund balance served to balance an adopted budget with unrealistically high expenditures estimates. The tax levy would have been reduced if the appropriated fund balance had actually been used during the five years. Instead, the unexpended surplus funds increased every year because the District did not need the appropriated fund balance during those five years. This resulted in tax levies that were higher than necessary. This practice was not a productive use of unrestricted funds and served to circumvent the statutory 4 percent limit on unassigned fund balance.

Note 4

The District's chart includes a line for surplus from unexpended funds totaling about $36.4 million. This amount does not represent unexpended surplus funds; rather, it is overestimated appropriations (see Figure 1 of the report). Unexpended surplus funds represent the portion of fund balance retained at year end for purposes of cash flow or unexpected expenses. The chart presented in the District's response is misleading.

Note 5

The Local Government Management Guide cited also states: "Amounts to be placed in reserve funds should be included in the annual budget. By making provisions to raise resources for reserve funds explicit in the proposed budget, the board gives voters and residents an opportunity to know the board's plan for funding its reserves." Instead, District officials funded the reserves at year end, after the budget was already adopted, in each of the five fiscal years reviewed.

Note 6

Actual expenditures for the last three completed fiscal years averaged $2.6 million; therefore, the total of about $11.9 million in the retirement reserve is almost five times the average actual expenditures. Additionally, the District never used any money from this reserve in the five years reviewed because it raised the required funds from the tax levy.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to determine if District officials effectively managed their financial condition by ensuring that budget estimates and reserve funds were reasonable for the period July 1, 2013 through August 31, 2014. We expanded our scope back to July 1, 2009 to analyze the District's financial condition and to provide perspective and background information. To achieve our audit objective and obtain valid evidence, we performed the following audit procedures:

- We interviewed District officials and employees to gain an understanding of District operations.
- We reviewed District policies and procedures.
- We reviewed Board meeting minutes and resolutions to gain an understanding of the District's budget development, monitoring procedures and control process.
- We reviewed annual financial statements for the fiscal years 2009-10 through 2013-14, the accompanying management letters prepared by the District's external auditor and relevant budget reports.
- We compared the budgeted revenues and appropriations to the actual revenues and expenditures for the fiscal years 2009-10 through 2013-14. In addition, we looked at the 2014-15 adopted budget in comparison to the previous year's budget and expenditures to determine how reasonable it was.
- We reviewed and analyzed reported fund balance levels in comparison to amounts appropriated in adopted budgets for the fiscal years 2009-10 through 2013-14.
- We reviewed reserve funds to ensure that they were adequately funded and in compliance with applicable laws and the District's own written plans.

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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APPENDIX E

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