

Taconic Hills Central School District

Financial Management

OCTOBER 2019



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

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Report Highlights

Taconic Hills Central School District

Audit Objective

Determine whether the Board and District officials adopted realistic budgets to maintain fund balance within the statutory required limit.

Key Findings

- The Board overestimated appropriations by a total of \$12.6 million from 2013-14 through 2017-18.
- As of June 30, 2018, surplus fund balance totaled approximately \$6.5 million, exceeding the statutory limit by 13 percentage points.

Key Recommendations

- Adopt budgets with reasonable estimates for revenues and appropriations and the amount of fund balance that will be used to fund operations.
- Reduce the amount of surplus fund balance to comply with the statutory limit and use the excess funds in a manner more beneficial to taxpayers.

Background

The Taconic Hills Central School District (District) serves the Village of Philmont and the Towns of Ancram, Austerlitz, Claverack, Copake, Gallatin, Ghent, Hillsdale, Livingston and Taghkanic in Columbia County and the Town of Northeast in Dutchess County.

The District is governed by a Board of Education (Board) composed of nine members, including a President, Vice President and seven Board members. The Board is responsible for the management and control of financial and educational affairs.

The Superintendent of Schools is the chief executive officer responsible for day-to-day management. The Business Manager (Manager) is responsible for managing financial activities, including the budget.

Quick Facts

2017-18 Expenditures	\$37.3 million
2018-19 Appropriations	\$38.8 million
Employees	444
Enrollment	1,400

Audit Period

July 1, 2017 – April 11, 2019

We extended our audit period back to July 1, 2013 to review fund balance trends and reserve fund activity.

Financial Condition Management

What Are Effective Budgeting Practices?

A board is responsible for making sound financial decisions that are in the best interest of the district, the students it serves and the taxpayers who fund the district's programs and operations. This responsibility includes adopting budgets with realistic expenditure estimates, appropriating fund balance to the extent necessary to fund district operations and ensuring that reserve funds are legally established and reasonably funded.

District officials should ensure that unrestricted fund balance does not exceed the amount allowed by New York State Real Property Tax Law,¹ which currently limits the amount of surplus fund balance² to no more than 4 percent of the following year's appropriations. Any surplus fund balance that exceeds the statutory limit may be appropriated to partially fund the next year's appropriations, pay for one-time purchases, fund needed reserves or reduce debt.

When a district has accumulated an adequate level of surplus, it is an acceptable practice to use unexpended resources from prior years to finance appropriations contained in the budget, hence reducing tax levy.

Officials Overestimated Appropriations

The Board overestimated budgeted appropriations by an average of \$2.6 million (7 percent) in each of the last five years (2013-14 through 2017-18) for a combined total of almost \$12.6 million.

Figure 1: Overestimated Appropriations

	2013-14	2014-15	2015-16	2016-17	2017-18	Totals
Appropriations	\$35,267,433	\$36,746,945	\$35,850,996	\$37,190,634	\$37,497,015	\$182,553,024
Actual Expenditures	\$32,398,361	\$34,193,120	\$33,399,233	\$34,947,431	\$35,036,705	\$169,974,849
Overestimated Appropriations	\$2,869,072	\$2,553,825	\$2,451,763	\$2,243,204	\$2,460,311	\$12,578,175
Percentage Overestimated	9%	7%	7%	6%	7%	7%

We found that seven overestimated appropriations lines items accounted for about 73.8 percent of total overestimated appropriations over these years (Figure 2). Furthermore, our projections show that these line items are likely overestimated by approximately \$2.6 million in 2018-19.

1 New York State Real Property Tax Law, Section 1318

2 Surplus fund balance is defined as unrestricted fund balance minus appropriated fund balance and encumbrances included in committed and assigned fund balance. See our accounting bulletin at <https://www.osc.state.ny.us/localgov/pubs/releases/gasb54.pdf>

Figure 2: Overestimated Budget Line Items

Line Item	2013-14	2014-15	2015-16	2016-17	2017-18
Operation of Plant	\$177,564	\$476,819	\$474,339	\$174,995	\$244,521
Maintenance of Plant	\$201,649	\$185,535	\$248,049	\$78,747	\$105,292
Teaching – Regular School	\$180,662	\$1,049,795	\$887,601	\$839,087	\$340,408
Handicapped Program	\$900,949	\$384,351	\$716,693	\$343,871	\$103,986
District Transportation Services	\$337,797	\$230,693	\$344,002	\$579,834	\$338,984
Health Insurance	\$178,112	\$368,494	\$472,538	\$265,831	\$426,733
Serial Bond	\$43,455	\$516,975	\$215,620	\$296,660	(\$9,800)
Totals	\$2,020,188	\$3,212,662	\$3,358,842	\$2,579,025	\$1,550,124

The Manager told us that the budget was based on the known enrollments for special education and also included the salaries for the expected contract settlements. Further, the Board President feels it is important to have extra money to avoid having to significantly increase taxes in the event of an emergency. Such a practice would be reasonable if the District had little fund balance or reserves to act as a financial cushion against an unforeseen circumstance.

However, the District has ample fund balance and reserves yet continues to overestimate expenditures. As a result of the overestimated appropriations, the District experienced annual operating surpluses resulting in a five-year cumulative operating surplus exceeding \$9 million, which resulted in excessive fund balance totaling approximately \$6.5 million as of June 30 2018.

Officials Did Not Always Include Appropriated Funds in the Annual Budgets

District officials appropriated approximately \$1.4 million of surplus fund balance in the 2014 and about \$1.6 million in 2017. However, the estimated revenues included in the budgets for these years did not reflect the funds appropriated to reduce the tax levy. Officials indicated this was a clerical error.

Revenues and expenditures were not reasonably estimated in either 2013-14 or 2016-17 because officials excluded the amount of appropriated funds from the previous years. This led to the adoption of a structurally unbalanced budgets in both years. As a result, more real property taxes may have been levied than necessary those years.

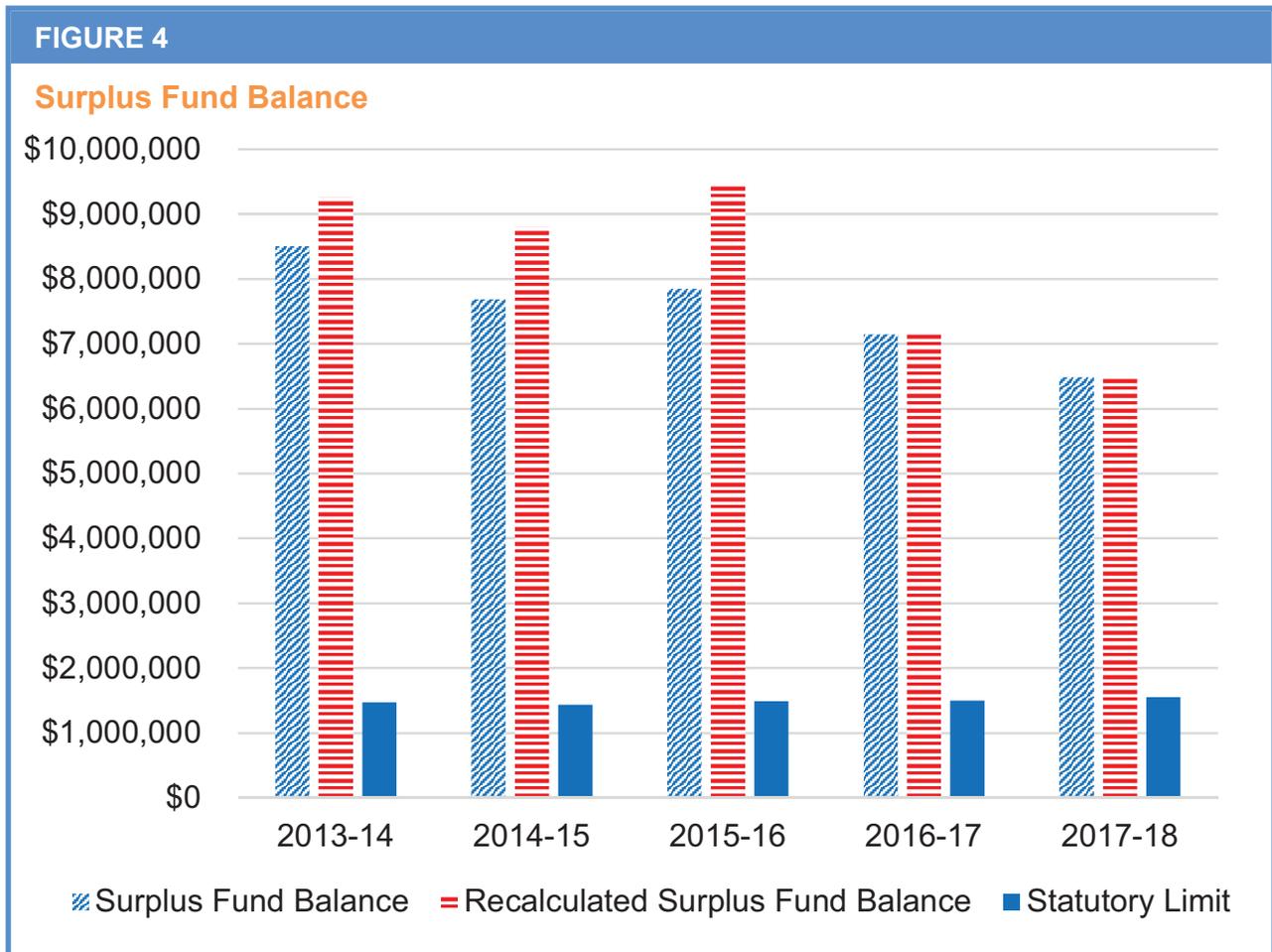
Fund Balance Exceeded the Statutory Limit

District officials maintained a surplus fund balance exceeding the statutory limit in each of the past five years (2013-14 through 2017-18). Surplus fund balance as a percentage of the next year's budget ranged between 17 and 25 percent and the

statutory limit was exceeded by amounts ranging between \$4.9 and \$7 million. Our further review of surplus fund balance revealed that appropriated funds were not always used as budgeted. When unused appropriated fund balance is added back, surplus fund balance exceeded the allowable statutory limit each year by 13 to 21 percentage points (Figures 3 and 4).

Figure 3: Recalculated Surplus Fund Balance at Year-End

	2013-14	2014-15	2015-16	2016-17	2017-18
Surplus Fund Balance	\$8,506,538	\$7,686,346	\$7,851,722	\$7,148,822	\$6,490,075
Add: Unused Appropriated Fund Balance	\$750,000	\$1,115,937	\$1,599,467	\$0	\$0
Recalculated Surplus Fund Balance	\$9,256,538	\$8,802,283	\$9,451,189	\$7,148,822	\$6,490,075
Next Year's Budget	\$36,746,945	\$35,850,996	\$37,190,635	\$37,497,016	\$38,739,392
Surplus Fund Balance as a Percentage of Next Year's Budget	25%	25%	25%	19%	17%



The surplus fund balance was due to budgeting practices and operating surpluses during the last five years (2013-14 through 2017-18). Furthermore, officials appropriated fund balance every year that was not used. The Board president told us that the Board is aware of the excessive fund balance and wants to maintain the fund balance at the current levels. She believes it is important to have the extra money so that in case of an emergency they will not need to raise taxes too much.

The tax levy has remained stable but at a higher level than needed to fund operations. The District retained significant levels of surplus fund balance that placed unnecessary burden on taxpayers.

What Do We Recommend?

The Board should:

1. Develop and adopt budgets that include realistic estimates for revenues and appropriations and the amount of fund balance that will be used to fund operations.
2. Ensure that the appropriated fund balance is used reduce the tax levy of the next year's budget.
3. Develop a plan to reduce the amount of surplus fund balance to comply with the statutory limit. Surplus funds can be used as a financing source for:
 - Funding one-time expenditures
 - Funding needed reserves
 - Paying off debt
 - Reducing real property taxes.

Appendix A: Response From District Officials

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October 15, 2019

[REDACTED]
NYS Division of Local Government and School Accountability
Newburgh Regional Office
33 Airport Center Drive, Suite 103
New Windsor, NY 12553

Re: Taconic Hills CSD Financial Management Report of Examination 2019M-155

Dear [REDACTED]

The Taconic Hills Central School District acknowledges receipt of the above-referenced draft report with an original audit period of July 1, 2017 to April 11, 2019, and subsequently extended back to July 1, 2013 to review fund balance trends and reserve fund activity. On behalf of the Board of Education, I would like to thank the New York State Comptroller's Office and its team of examiners who worked with district officials to complete the audit in a professional and efficient manner.

We have reviewed the Financial Management Report of Examination 2019M-155 of the Taconic Hills Central School District. The report offers the following key findings: 1) the Board overestimated appropriations by a total of \$12.6 million from 2013 through 2018-19; and 2) as of June 30, 2018, surplus fund balance totaled approximately \$6.5 million, exceeding the statutory limit by 13 percentage points. Further, the report offers key recommendations, in response to the findings. These recommendations include: 1) adopt budgets with reasonable estimates for revenues and appropriations and the amount of fund balance that will be used to fund operations; and 2) reduce the amount of surplus fund balance to comply with the statutory limit and use the excess funds in a manner more beneficial to taxpayers.

Recommendations and District Responses:

- 1. The board should develop and adopt budgets that include realistic estimates for revenues and appropriations and the amount of fund balance that will be used to fund operations.**

The Taconic Hills Central School District Board of Education and District Officials utilize thorough budgeting protocols that are transparent, independently verifiable, and rooted in supporting documentation as evidenced by the information published on the Finance, Budget & Voting section of the district website, and shared annually with taxpayers throughout the budget process.

District Officials utilize a cost-center approach to budgeting taking into account historical trends as well as forecasted conditions to estimate expenses from year to year. The Board of Education and District Officials acknowledge that surpluses occurred during the audit period, specifically in the areas of Operation and Maintenance of Plant, Regular School Instruction, Handicapped Programming, Transportation Services, Health Insurance and the Serial Bond budget lines.

Several mitigating factors contributed to these conditions over the course of the audit period. Most significant was the impact of protracted labor negotiations for two of the district's largest bargaining units. The district budgeted annually for expected contract settlements and changes to health insurance contribution rates, but each year that a settlement was not successful, levels of fund balance continued to grow. The Board of Education and District Officials are committed to balancing our employment responsibilities to our faculty, staff, and administration with our duty to control the long-term impact of the costs of salaries, benefits, and associated payroll expenses on behalf of taxpayers.

Budgeting to educate students with disabilities is a moving target and has a significant impact on a school district's operating budget. Each year, the district budgets to program for the population of students with disabilities that is forecasted to be enrolled the following year. These programs could be delivered in-district with highly qualified staff, or off campus through a BOCES or private placement, and may include other high cost services like specialized transportation, aide support, and related services. Each year, all school districts experience changes and new enrollments with this population of students between the time a budget is finalized and the new fiscal year begins. For example, as of today's date, the Handicapped Programming budget for the 2019-2020 fiscal year is already over budget by \$140,000 (not including transportation costs) due to programming and enrollment changes not present during the budget-building phase. However, because of the district's commitment to preserving fund balance levels to obviate the need for drastic increases in the tax levy from year to year to pay for these types of fluctuations in expenses, Taconic Hills will be able to meet this type of unexpected obligation in order to support the education of our students.

The District notes that field examiners reported the overestimated budget line items based on original budgeted amounts to actual expenses. District Officials routinely monitor cost-center budgets. When a surplus is anticipated in any area, attempts are made to identify unbudgeted expenses that the district can reasonably fund in the current budget year rather than passing it on to a future budget. Examples of one-time expenses that have been funded during the audit period include: instructional technology devices for teachers and students (district is now 1:1 K-12), physical plant safety and security enhancements, and professional development opportunities. Further, because of the district's solvent financial position, we are able to be flexible in our approach to delivering educational programs and support to our students. For example, through careful monitoring of enrollment levels for Kindergarten over the summer months preceding the 2019-2020 school year, it was realized that the district could benefit from adding a fifth section of Kindergarten in order to reduce class sizes and deliver more individualized explicit instruction to our neediest and youngest students. The cost of this position including benefits was not budgeted, however, the district anticipates being able to absorb the expense by using savings.

2. The board should ensure that the appropriated fund balance is used to reduce the tax levy of the next year's budget.

In recent years, Taconic Hills Central School District Officials have benefited from professional development opportunities offered by the NYS Office of the State Comptroller in the areas of budgeting, reserve fund plan development, and long-range planning. In the 2019-2020 budget, fund balance was not appropriated because revenues were balanced with expenses based upon NYS Aid and the local tax levy.

3. The board should develop a plan to reduce the amount of surplus fund balance to comply with the statutory limit.

District Officials are working together with the Board of Education to systematically reduce the level of unassigned fund balance to within statutory limits.

On June 20, 2018, the Board of Education authorized District Officials to transfer \$1,921,018 of unassigned fund balance to the Capital Fund to supplement the financing of the 2018 voter-approved capital project thereby reducing needed debt.

For the year ending June 30, 2018, the balance of Unassigned Fund Balance was \$6,490,075, representing 16.75% of the 2018-2019 operating budget.

The Board of Education has approved the appropriation of an additional \$1,336,000 of unassigned fund balance to alleviate debt service costs on the 2018 voter-approved capital project.

Surplus funds can be used as a financing source for:

➤ **Funding one-time expenditures**

The Taconic Hills Central School District's budgeting protocols together with the accompanying backup documentation assumes 100% of the annual budget will be spent. The mitigating factors described earlier in this response provide information about why that was not the case during the 2013-2018 audit period. However, during the audit period, when fund balance was appropriated to balance the budget, the district did so because it has been engaged in the practice of funding one-time expenditures annually to enhance learning opportunities for students, as well as preserve and maintain the district's physical plant. The following purchases are examples of these one-time, non-personnel, expenditures: funding of all bus and vehicle purchases since 2013-2014 (no debt), replacement of a bus garage lift, installation of a Distance Learning Laboratory, replacement of kitchen equipment, replacement of facilities equipment, art department kiln, replacement of athletics equipment, instructional furniture upgrades, facility lighting upgrades, technology "shop" software and equipment, piano and musical instruments, replacement of Performing Arts Center curtains and risers, cafeteria furniture replacement, replacement of gym bleachers,

elementary café sound reduction material, replacement of fitness center equipment, replacement of elementary playground equipment, creation of an elementary STEAM Laboratory, school security upgrades, instructional technology devices, and textbook series adoptions and replacements.

➤ **Funding needed reserves**

The Taconic Hills Central School District has a Reserve Fund Plan approved by the Board of Education. These reserves are currently adequately funded.

➤ **Paying off debt**

The Taconic Hills Central School District regularly evaluates its debt service position especially as it relates to the impact on the NYS Tax Cap formula and potential tax levy amounts.

The district refunded the Series 2002 serial bonds in 2012 realizing budgetary savings of approximately \$2.8 million through the final maturity of the bonds in 2026-2027.

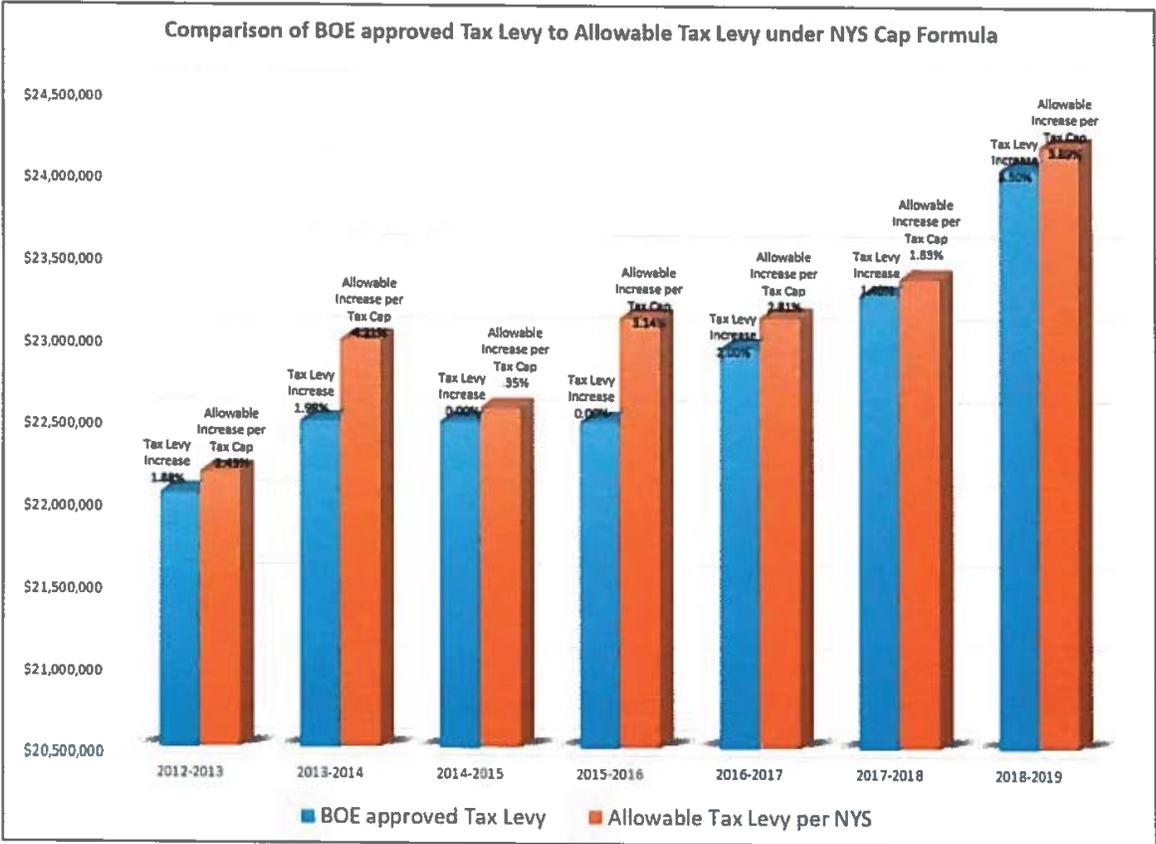
The first call date for the refunded Series 2012 serial bonds is June 15, 2022 at 100%. As of June 15, 2022, the payoff amount would be \$9,235,000. At this time, the district is unable to consider this option.

The first call date for the Series 2016 serial bonds is June 15, 2024 at 100%. Final maturity of the bonds also occurs in 2026-2027. As of June 15, 2024, the payoff amount would be \$2,645,000. The district includes this information in its long-term planning.

➤ **Reducing real property taxes.**

The Taconic Hills Central School District considers surplus funds when determining what a reasonable tax levy amount should be each year.

Please see graph below that details the last seven (7) years of actual tax levy increases compared to the tax levy increases that would have been allowable under the NYS Tax Cap formula. The tax cap formula is rooted in the prior year tax levy amount and this concerns the Board of Education and District Officials. When districts do not increase their tax levy annually, the compounding effect is that future revenues are lost. During the audit period of 2013-2018, by not taxing at the Maximum Allowable Levy limits, the district lost \$1,616,178 in potential base revenue. The examiners acknowledge the district has kept the tax levy stable over this period. It is our position that we must continue to propose moderate tax levy increases in order to mitigate burdensome levy increases in future years when reserves are depleted.



On behalf of the Board of Education, the Taconic Hills Central School District would like to thank the examiners for the opportunity to improve our work in the areas noted in the audit report.

Very truly yours,

Dr. Neil L. Howard, Jr.
 Superintendent of Schools

cc: Board of Education

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 objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials to obtain an understanding of the oversight and practices for budgeting and financial management.
- We reviewed Board minutes for procedures relating to budgeting and financial management and Board actions.
- We compared the appropriations and estimated revenues with the actual results of operations to determine whether there were any significant budget variances from 2013-14 through 2018-19.
- We reviewed and analyzed all the reserves and fund balances to ensure they complied with applicable statutes.
- We reviewed and analyzed reported fund balance levels in comparison to amounts appropriated in adopted budgets for 2013-14 through 2018-19.
- We compared the unrestricted fund balance to the subsequent year's budgeted appropriations to determine whether the District's unrestricted fund balance was within the statutory limit.
- We recalculated the 2013-14 through 2017-18 surplus fund balance to include appropriated fund balance not used as percentages of next years' budgets.
- We interviewed officials and reviewed applicable laws, Board resolutions, accounting records, annual reserve reports to the Board and audited financial statements to determine whether reserves were legally established, funded and expended in accordance with statutory provisions.

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.

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 2116-1(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 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 to the District's website for public review.

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/pubs/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.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

Contact

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