



# Lancaster Central School District Financial Condition

## Report of Examination

Period Covered:

July 1, 2012 – December 8, 2015

2016M-101



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

July 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 Lancaster 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 Lancaster Central School District (District) is located in the Towns of Lancaster, Cheektowaga and Elma in Erie County. The District is governed by an elected seven-member Board of Education (Board) which 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 the District's day-to-day management under the Board's direction. The Assistant Superintendent of Business and Support Services (Assistant Superintendent) is responsible for accounting for the District's finances, maintaining accounting records and preparing financial reports.

The District operates seven schools with approximately 5,700 students and 900 employees. The District's budgeted appropriations for the 2015-16 fiscal year are approximately \$100 million, which are funded primarily with State aid, sales tax, real property taxes and grants. As of June 30, 2015, the District had approximately \$33 million of fund balance in the general fund.

## Objective

The objective of our audit was to review the District's financial condition and budgeting practices. Our audit addressed the following related question:

- Did the Board and District officials effectively manage the District's fund balance?

## Scope and Methodology

We examined the District's financial condition and budgeting practices for the period July 1, 2012 through December 8, 2015.<sup>1</sup>

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 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 some findings but indicated they planned to initiate corrective action. Appendix B includes our comments on issues raised in the District's response.

<sup>1</sup> We expanded our reserve analysis back to July 1, 2002 where applicable.

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

A school district's financial condition is a factor in determining its ability to fund public educational services for students within the district. The responsibility for accurate and effective financial planning for the use of District resources rests with the Board, the Superintendent and the Assistant Superintendent. The Board is responsible for adopting realistic budgets and for ensuring that fund balance does not exceed the amount allowed by law.

New York State Real Property Tax Law (RPTL) requires that unrestricted fund balance cannot exceed 4 percent of the ensuing year's appropriations. Districts may establish reserve funds to restrict reasonable portions of fund balance to be appropriated for specified purposes that comply with statutory directives. However, District officials should not appropriate fund balance or establish reserves for the purpose of removing fund balance amounts from the calculation of the 4 percent statutory limit.

While the Board and District officials have generally maintained unrestricted fund balance levels in accordance with the statutory limit, we found that District officials used budgeting practices that appropriated fund balance and reserves that were not actually used. The District routinely overestimated expenditures (averaging \$10 million) and as a result, did not use an equivalent amount of appropriated fund balance and reserves as budgeted. This practice is projected to continue in the 2015-16 fiscal year.

Moreover, once the appropriated fund balance not needed to finance operations is included in unrestricted fund balance, the District's recalculated unrestricted fund balance ranges from \$6.1 million (6 percent) to \$7.4 million (8 percent) of the ensuing years' appropriations for the fiscal years 2012-13 through 2014-15, exceeding the statutory limit. In addition, District officials consistently budgeted in the general fund for expenditures that could have been paid for with reserve funds, five of which appear to be overfunded by more than \$18 million.<sup>2</sup> As a result, the District has levied higher taxes than necessary.

### Fund Balance and Budgeting

The Board is responsible for preparing and presenting the District's budget for voter approval. In preparing the budget, the Board must estimate revenues (e.g., State aid), appropriations and the amount of fund balance and reserves that may be used for the ensuing year's appropriations and to balance the budget. After taking these factors into account, the Board should determine the expected tax levy that is

<sup>2</sup> Overfunded reserves are as follows - debt \$7.7 million, retirement contribution \$6.3 million, unemployment \$2.2 million, employee benefit accrued liability \$1.6 million and insurance \$320,000.

necessary to fund operations. Accurate estimates help ensure that the property tax levy is sufficient and reasonable.

Fund balance represents the cumulative residual resources from prior fiscal years that can, and in some cases must, be used to lower property taxes for the ensuing fiscal year. A district may retain a portion of fund balance at the end of the fiscal year for cash flow needs or unexpected expenditures. A district also can legally set aside and reserve portions of fund balance to finance future costs for a variety of specified objects or purposes.

During the 2012-13 through 2014-15 fiscal years, the Board adopted budgets that included the use of fund balance and reserves to finance operations. When fund balance and reserves are appropriated to finance operations, the District should have a planned operating deficit. However, the District experienced operating surpluses in two years and used \$1.3 million in one year (about one-third of the amount budgeted) to finance operations (Figure 1).

<b>Figure 1: Unrestricted Fund Balance at Fiscal Year-End</b>			
	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
Beginning Fund Balance	\$33,020,000	\$34,030,000	\$32,730,000
Add: Operating Surplus/(Deficit)	\$1,010,000	(\$1,300,000)	\$520,000
Ending Fund Balance	\$34,030,000	\$32,730,000	\$33,250,000
Less: Restricted Fund Balance	\$26,370,000	\$24,890,000	\$26,920,000
Less: Encumbrances	\$230,000	\$450,000	\$260,000
Less: Appropriated Fund Balance	\$4,000,000	\$3,770,000	\$2,190,000
<b>Unrestricted Fund Balance at Fiscal Year-End</b>	<b>\$3,430,000</b>	<b>\$3,620,000</b>	<b>\$3,880,000</b>
Ensuing Year's Budgeted Appropriations	\$94,720,000	\$97,440,000	\$99,940,000
Unrestricted Fund Balance as a Percentage of Ensuing Year's Budget	4%	4%	4%

These budgeting practices allowed the District to circumvent the statutory limit imposed on the level of unrestricted fund balance. As illustrated in Figure 2, when the unused appropriated fund balance is included in unrestricted fund balance, the District actually exceeds the limit in all three years. Recalculated fund balance totals range from \$6.1 million (6 percent) to \$7.4 million (8 percent).

<b>Figure 2: Unused Fund Balance</b>			
	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
Unrestricted Fund Balance at Fiscal Year-End	\$3,430,000	\$3,620,000	\$3,880,000
Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget	\$2,700,000	\$3,770,000	\$2,190,000
<b>Total Recalculated Unrestricted Fund Balance at Fiscal Year-End</b>	<b>\$6,130,000</b>	<b>\$7,390,000</b>	<b>\$6,070,000</b>
Recalculated Unrestricted Fund Balance as a Percentage of Ensuing Year's Budget	6%	8%	6%



We found that the Board overestimated expenditures when developing the District's budgets. We compared budgeted appropriations and revenues with actual operating results from July 1, 2012 through June 30, 2015. While revenue estimates were generally close to the amounts received, expenditures were overestimated by an average of \$10 million per year or a cumulative total of \$30 million (11 percent) over the last three years. The most significant were found in central services,<sup>3</sup> teaching,<sup>4</sup> pupil services,<sup>5</sup> transportation<sup>6</sup> and employee benefits<sup>7</sup> at amounts that each averaged between \$1 million and \$3.4 million annually. Because some of these costs are determined by contractual agreements, anticipated expenditures should be reasonably estimated and not consistently overestimated.

We also analyzed the 2015-16 budgeted revenues and appropriations in comparison with the last three completed fiscal years of actual results and project a similar trend to continue. As a result, we project the District will likely end 2015-16 with expenditures overestimated by approximately \$11 million (11 percent) and realize an operating surplus. District officials have also increased the tax levy for 2015-16 by an additional 2 percent or approximately \$870,000.<sup>8</sup> We analyzed the 2015-16 budget with the last three completed fiscal years to develop projections of fund balance as of June 30, 2016. The District is projected to experience an operating surplus of approximately \$1 million in 2015-16 largely due to the overestimation of expenditures.

The District's budgeting practices are not transparent to the residents. As a result, the Board and District officials have not accurately represented both the District's use of fund balance and reserves to residents. Furthermore, the District has levied and collected more taxes than were necessary to fund District operations.

## Reserve Funds

School districts may establish reserve funds to retain a portion of fund balance to finance a variety of objects or purposes but must do so in compliance with statutory requirements. When school districts establish reserves for specific purposes, it is important that a written plan is developed for how to fund the reserves, how much should be accumulated in the reserves and when the funds will be used to finance related costs. While school districts are generally not limited as to the amount of funds that can be held in reserves, balances should be reasonable. Funding reserves at greater than reasonable levels

<sup>3</sup> Includes expenditures for the operation and maintenance of the schools.

<sup>4</sup> Includes salaries, equipment, conferences, supplies and textbooks.

<sup>5</sup> Includes attendance, guidance, health, speech, psychologist and social services, and census.

<sup>6</sup> Includes salaries and all costs associated with bus operation and maintenance.

<sup>7</sup> Includes retirement contributions, health insurance, Social Security, unemployment insurance and workers' compensation payments.

<sup>8</sup> The District did not exceed its tax cap limit.



contributes to real property tax levies that are higher than necessary because the excessive reserve balances are not being used to fund operations.

As of June 30, 2015, the District reported nine reserves in the general fund totaling approximately \$26.9 million and one reserve in the debt service fund totaling approximately \$7.7 million. We analyzed the reserves for reasonableness and adherence to statutory requirements. We found the District properly established all 10 reserves and reasonably funded the following five reserves: tax certiorari (\$3 million), capital-buses (\$2.7 million), capital-building (\$2.5 million), property loss (\$170,000) and workers' compensation (\$52,000). However, the remaining five reserves, totaling over approximately \$26 million, appear overfunded by at least \$18 million.<sup>9</sup>

Employee Benefit Accrued Liability Reserve (EBALR) – This reserve is authorized for the cash payment of accrued and unused sick, vacation and certain other accrued, but unused, leave time owed to employees when they separate from District employment. As of June 30, 2015, the EBALR balance was approximately \$9.6 million. The balance in an EBALR should not exceed the long-term portion of the liability for compensated absences. As such, we calculate that the balance should not exceed approximately \$8 million, which means this reserve is overfunded by approximately \$1.6 million (20 percent).

Debt Reserve – School districts are required to establish a debt reserve<sup>10</sup> to account for and restrict unexpended bond proceeds and related interest earnings in accordance with statutory provisions and use the funds to pay related debt.

The District reported a debt reserve with a balance of approximately \$7.7 million as of June 30, 2015. While District officials were able to demonstrate the balance consisted of unexpended bond proceeds and interest, they have not developed a plan to ensure that these funds are used for related debt obligations. These funds have been used on two occasions during the last 13 years.<sup>11</sup> The District is statutorily required to use these funds to pay related debt payments.

Retirement Contribution Reserve – This reserve is authorized to make contributions for employees covered by the New York State and Local Retirement System. As of June 30, 2015, the balance in this reserve

<sup>9</sup> Reserves are overfunded as follows: EBALR - \$1.6 million, debt - \$7.7 million, retirement contribution - \$6.3 million, unemployment - \$2.2 million and insurance - \$320,000.

<sup>10</sup> This reserve must be accounted for in the debt service fund.

<sup>11</sup> The District used \$250,000 from this reserve in 2009-10 and \$1.74 million in 2012-13.

was approximately \$6.3 million. District officials stated that the 2014-15 balance would be sufficient to cover two years of retirement contributions. However, we calculate that the balance would equal approximately three years of projected expenditures. This level of funding appears excessive because even though the Board includes an appropriation in the budget from this reserve as a funding source, these appropriations are typically not used.<sup>12</sup> As a result, we question the purpose of maintaining this amount of restricted funds.

Unemployment Reserve – General Municipal Law (GML) authorizes school districts to create a reserve to reimburse the New York State Unemployment Insurance Fund (SUIF) for payments made to claimants. If there are excess amounts after claims are paid and pending claims are considered, the Board can transfer all or part of the excess amounts to certain other reserve funds or apply all or part of the excess to the budget appropriation of the next fiscal year.

As of June 30, 2015, this reserve had a balance of almost \$2.2 million. From fiscal years 2012-13 through 2014-15, the District paid a total of approximately \$165,000 for unemployment reimbursements to the SUIF from this reserve.

Given the District's average annual expenditures of \$55,000 paid to the SUIF, its current reserve balance is sufficient to pay these costs for nearly 40 years. While the District cites the potential of declining future enrollment and subsequent layoffs to keep this reserve funded at such a high level, the District has used other methods to address staffing levels in the past such as offering retirement incentives. As a result, we question the need to retain this amount of restricted funds.

Insurance Reserve – The insurance reserve currently maintains a balance of approximately \$320,000 and has not been used since it was established in the 2006-07 fiscal year. GML requires that an insurance reserve be used only to fund certain uninsured losses, claims, actions or judgments for which a school district is authorized or required to purchase insurance. While this reserve was properly established, the Board should determine whether this is a necessary reserve because it has been idle for the past nine years.

While the Board has adopted a written policy for reserves and annually documented the amount the Board and District officials determine as a suitable balance for each of the reserves, the policy does not address how the suitable balance for each of the reserves

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<sup>12</sup> In 2013-14 the District used \$810,000 of this reserve and then increased the reserve's balance in the subsequent year by approximately \$805,000. This was the only time this reserve was used since its creation in 2008-09.

will be determined or when these funds will be used or replenished. The District appropriates approximately \$7 million each year from reserves but typically does not use most of it. Reserves in total experienced a net decrease of approximately \$140,000 from \$34.7 million at the beginning of 2012-13 to approximately \$34.6 million at the end of 2014-15.

If the District intends to continue to levy taxes to pay for expenditures that could be paid for with reserve funds, we question the purpose of maintaining reserves in excess of amounts needed to fund unplanned spikes in the related expenditures.

## **Recommendations**

The Board and District officials should:

1. Develop realistic estimates of appropriations and the use of fund balance and reserves in the annual budget.
2. Ensure that the amount of unrestricted fund balance is in compliance with the statutory limit and develop a plan to use excess funds in a manner that benefits taxpayers. Such uses could include, but are not limited to:
  - Paying off debt,
  - Financing one-time expenditures,
  - Funding needed reserves,
  - Reducing District property taxes.
3. Continue to review all reserves at least annually to determine if the amounts reserved are necessary and reasonable. Any excess funds should be transferred to unrestricted fund balance (where allowed by law) or to other reserves established and maintained in compliance with statutory directives.
4. Ensure that the debt reserve is used to pay related debt as required.
5. Update the existing reserve policy by indicating the amount of funds to be reserved, how each reserve will be funded and when the balances will be used and replenished to finance related costs.

**APPENDIX A**

**RESPONSE FROM DISTRICT OFFICIALS**

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

# *Lancaster Central School District*

177 Central Avenue  
Lancaster, NY 14086  
(716) 686-3201

*Michael J. Vallely, Ph.D.*  
*Superintendent of Schools*

June 17, 2016

Office of the State Comptroller  
Buffalo Regional Office  
Jeffrey D. Mazula, Chief Examiner  
295 Main Street, Suite 1032  
Buffalo, NY 14203-2510

Dear Mr. Mazula:

The Lancaster Central School District acknowledges the Draft Report of Examination entitled Financial Condition covering the time period July 1, 2012 through December 8, 2015. On behalf of the Board of Education and Administration, we would like to thank the Comptroller's office for their professionalism and courtesy in conducting their audit. The Board of Education was pleased that the State Comptroller's audit did not identify any instances of fraud, wrongdoing, misappropriation, instances of waste or instances of misuse. However, the Board of Education disagrees with some of the statements and misleading conclusions made in the report.

As stated in the audit report, "A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively..." and "A school district's financial condition is a factor in determining its ability to fund public educational services for students within the district. The responsibility for accurate and effective financial planning for the use of District resources rests with the Board, the Superintendent, and the Assistant Superintendent." We wholeheartedly agree.

## **Fund Balance**

The Lancaster Central School District has been recognized during the years covered by this audit, 2012 through 2015, by Buffalo Business First for its administrative efficiency and spending per pupil. Compared to the 429 upstate New York school districts, Lancaster was rated first in administrative efficiency in the past four of five years. The District was also recognized for having one of the lowest spending per pupil rates across all upstate school districts (lowest in the state in 2014).

The Board of Education has been fiscally prudent in protecting against the financial difficulties of the past six years and looking into the future. As the Comptroller is well aware, there is no guarantee that the economy will remain stable and that the finances for the State of New York will not be such that measures such as freezing Foundation Aid, introducing another deficit reduction or gap elimination adjustment, or further limiting the local ability to raise funds through the property tax levy will not be a possibility again.

According to the Office of the New York State Comptroller Fiscal Stress Close Up publication "Fund Balance", "There is no set amount of fund balance that is universally considered to be sufficient for local governments to maintain. Circumstance may dictate the maintenance of higher fund balances for some local governments, such as those having a locale with a particularly volatile revenue base or that

See  
Note 1  
Page 14



has an unusual exposure to economic fluctuations”. Since the 2010-2011 school year, the District has had our state aid reduced by a total of \$24,950,866 as a result of the state’s Gap Elimination Adjustment. Also, since 2007-08, the District has not received a total of \$97,027,501 from New York State due to the state’s lack of phasing in and fully funding its Foundation Aid formula, as promised in 2008. Both of these factors can certainly be classified as volatile and fluctuating revenue bases.

Even without over \$120 million of state aid earmarked for Lancaster over the last nine years, the District has managed to maintain and even enhance student programs and opportunities, improve our student achievement levels to their highest ever rankings, and attain a ninety-nine percent graduation rate while remaining below the property tax cap levy limit each year since its inception.

In several instances throughout the report text and in Figure 2, appropriated and unappropriated fund balance are combined. In combining those fund balances, the report indicates that the District has exceeded the 4 percent statutory limit for fund balance. According to the Office of the New York State Comptroller Division of Local Government and School Accountability memorandum dated April 2011, “Fund Balance Reporting and Governmental Fund Type Definitions”, “Under Statement 54 fund balance classifications, the 4 percent limitation would be interpreted to be applied to unrestricted fund balance minus appropriated fund balance”. The District has complied with all laws and regulations regarding fund balance. The District annually completes and publishes the property tax report card, as required by law, in the format provided by the state, during the budget process. The report card provides the same information as Figure 2, but does not combine the two fund balances when calculating the unrestricted fund balance percentage, because the two are not to be combined. When discussed at the exit conference, it was indicated that the statements and Figure 2 were used for illustration purposes. The “illustrations” made in the report suggests wrongdoing and that statutory limitations were broken. The District did not exceed the 4 percent statutory limit in any of the fiscal years covered by the audit. We would ask that this section of the report be properly clarified or changed.

See  
Note 2  
Page 14

## Budgeting

The District has always budgeted conservatively and stands behind its budgeting practices. The areas noted in the report as being significantly overestimated are areas that have a history of being extremely variable (e.g., high cost special education students move into the district, additional bus routes needed for transportation placements, large increases in contract transportation costs, additional staffing needed due to state mandates) or are costs that have not been solidified for the following school year by the time the budget needs to be adopted (e.g., health and worker’s compensation premiums, New York State pension system contribution rates).

See  
Note 3  
Page 14

Revenues collected, without the budgeted use of reserve funds, generally come within a million dollars each year of what was actually spent (approximately 1%). A one percent margin between actual revenues and expenditures in an operation this size is admirable. Without spending the full expenditure budget, the District does not have to liquidate the budgeted reserve funds, leaving those funds available for use in future years. As has been demonstrated earlier in this response, the District never knows what those future years may hold in terms of funding.

As shown in Figure 1, in the 2013-14 school year, expenditures exceeded revenues by \$1.3 million, leaving the same fund balance and reserves that are being criticized to cover the deficit for the year. This report seeks to fault the District for finding efficiencies throughout the year and making sound financial decisions. If the report recommendations are followed, deficit years like 2013-14 could eventually result in cuts to programs and a fiscally stressed ranking from the Office of the State Comptroller.



## Reserve Funds

As stated in the report, the District has ten reserve funds, all of which were deemed to have been properly established, funded and utilized in accordance with statutory requirements and Board of Education policy. The District presented to the Comptroller a written plan for funding and use of each of the reserve funds. Annually and as importantly, the Board of Education is provided with each reserve fund's transactions, including transfers in and transfers out, for approval in public session at a regular Board of Education meeting. Use of the reserve funds are also discussed numerous times throughout the budget process in public session and included in budget publications provided to the community.

See  
Note 4  
Page 14

For the reserves specifically discussed, the audit "questions the purpose of maintaining this amount of restricted funds". There are no dollar value limits (maximums or minimums) in the statutory regulations on reserves. All reserves were established, funded, and are utilized in accordance with all statutory regulations. Moreover, they are reported to the community on an annual basis. The audit's "questions" are opinions with no basis (statute or otherwise).

See  
Note 5  
Page 14

The District does not disagree with all of the opinions stated regarding specific reserve funds. We recognize that an effort should be made to utilize some of these reserve funds in future years. With the uncertainty of state funding and the limitations of the property tax cap, the District made decisions in the past with fund balance that allowed for financial security. As the State's financial conditions improve, the District will consider addressing some of the balances of the reserves.

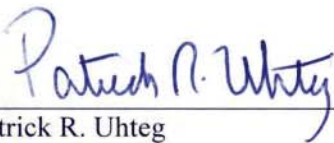
## Conclusion

The Lancaster Central School District is pleased with the overall results of the Comptroller's audit. Our district was reviewed for regulatory compliance in all areas and there were no findings of financial irregularity or misappropriation of funds. We will certainly use the examination as a learning experience and a tool to provide more accountability for our taxpayers.

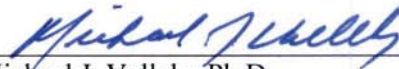
See  
Note 6  
Page 14

The Board of Education believes our financial management practices provide long-term fiscal stability for our district and help provide the educational program our community and, more importantly, our parents and students expect. As required, a corrective action plan will be prepared and provided within the ninety day statutory requirement.

Sincerely,



Patrick R. Uhteg  
President, Board of Education



Michael J. Vallely, Ph.D.  
Superintendent of Schools



## APPENDIX B

### OSC COMMENTS ON THE DISTRICT'S RESPONSE

#### Note 1

New York State Real Property Tax Law requires that a school district's unrestricted fund balance cannot exceed 4 percent of the ensuing year's appropriations.

#### Note 2

Our report does not say the District was not in compliance with the statutory requirement. We say that when unused appropriated fund balance is added back, the District actually exceeded the limit in each year. The practice of appropriating fund balance that is not needed to finance operations is misleading, especially when done over multiple years.

#### Note 3

Employer contribution rates to the New York State and Local Retirement System are projected by OSC and made available more than one year prior to the date they are payable. As such, District officials have sufficient information to accurately estimate retirement contributions when the District's budget is being adopted.

#### Note 4

The District has not properly utilized the debt reserve, as discussed in the report.

#### Note 5

We considered a number of factors when analyzing the reasonability of the reserves' funding levels including the balances in relation to the liabilities or annual expenditures and whether the reserves were used as the Board had intended in the budgets presented to residents for their approval. The District annually budgets to use reserve funds but also overestimates budgeted appropriations. As a result, reserve balances are not used and instead remain largely unchanged during our audit period. We continue to question the purpose of maintaining the significant amount of these restricted funds and the misleading budget presentation showing that reserves will be used during the year.

#### Note 6

It should be noted that the audit's scope was limited to the District's financial condition. The District was not reviewed for regulatory compliance in all areas. Please see Appendix C for more information on the audit scope and methodology.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials to gain an understanding of the District’s financial management practices.
- We analyzed 2012-13, 2013-14 and 2014-15 budgeted appropriations and revenues and compared them to actual results. We calculated if there was an operating surplus or deficit for each of these years.
- We reviewed the 2015-16 budget and compared it to the 2014-15 budget. We documented any increases or decreases to selected appropriation and revenues codes. Based upon these comparisons, we identified potential and projected trends.
- We analyzed the District’s fund balance for the most recent three years and determined if appropriated fund balance and reserves were used as budgeted.
- We evaluated selected appropriation and revenue codes for the most recent three years and compared them to actual results. We identified those that had high overbudgeted or underbudgeted variances.
- We calculated unrestricted fund balance as a percentage of the next year’s budget. We included both appropriated fund balance and unrestricted fund balance in our calculation because the District has shown a pattern of not using appropriated fund balance.
- We identified all reserves in place during the last three years and determined if they were properly established.
- We documented the flow of funds in and out of the reserves over the last three years and determined if reserve funds were used for related expenditures. In two situations we looked back to 2002-03 to assess reserve activity in a historical context.
- We requested substantiation from District officials as to how they calculated the appropriate balances for each of the reserves. We evaluated the balances in each reserve for reasonableness and determined if the calculation appeared proper.

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**  
**OFFICE OF THE STATE COMPTROLLER**  
**DIVISION OF LOCAL GOVERNMENT**  
**AND SCHOOL ACCOUNTABILITY**

Andrew A. SanFilippo, Executive Deputy Comptroller  
Gabriel F. Deyo, Deputy Comptroller  
Tracey Hitchen Boyd, Assistant Comptroller

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