



Germantown Central School District

Financial Management

Report of Examination

Period Covered:

July 1, 2011 — May 3, 2013

2013M-320



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2014

Dear 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 Germantown Central School District, entitled Financial Management. 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 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 Germantown Central School District (District) is located in Columbia County and includes the towns of Ancram, Clermont, Gallatin, Germantown, Livingston and Taghkanic. The District is governed by a Board of Education (Board) which comprises seven elected members. The Board is responsible for managing District operations and for controlling the District's financial and educational affairs. The Board President serves as the District's chief fiscal officer. 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 as well as the development and administration of the budget. The Business Manager assists the Superintendent in preparing the annual budget and prepares the monthly and year-end financial reports.

The District operates three schools, with approximately 150 employees and 600 students. The District's budgeted expenditures for the 2012-13 fiscal year were approximately \$13.7 million, funded primarily with real property taxes and State aid.

Objective

The objective of our audit was to evaluate the District's financial management. Our audit addressed the following related question:

- Do District officials ensure budget estimates and reserve balances are reasonable, and are reserves maintained in accordance with statutory requirements?

Scope and Methodology

We examined the District's financial management for the period July 1, 2011 through May 3, 2013. To analyze fund balance, budgeting, reserves and financial trends, we extended the audit period to July 1, 2008 through June 30, 2013.

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

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the 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 forwarded 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 Management

A school district's financial condition is a factor in determining its ability to provide educational services to students. The responsibility for accurate and effective financial planning rests with the Board, the Superintendent and the Business Manager. District officials must manage the District's finances in a prudent manner, accurately depicting and reporting the District's financial activity while also using available resources to ensure that the tax burden is not greater than necessary. To fulfill this responsibility, it is essential that officials develop reasonable budgets and manage fund balance responsibly and in accordance with statute. Real Property Tax Law limits the amount of unexpended surplus funds¹ that can be legally retained by District officials to no more than 4 percent² of the next fiscal year's budget. Districts may also establish reserves to restrict a portion of fund balance for a specific purpose, but must do so in compliance with statutory directives. This is a matter of transparency so that District residents can have accurate information when voting on the budget and is also a matter of fiscal responsibility to ensure that excess moneys are not collected from District taxpayers.

Over the last four years, District officials consistently overestimated expenditures in the adopted budgets by a total of \$5.5 million. As a result, the District had operating surpluses totaling \$2.7 million for the period, which caused the accumulated fund balance to exceed the statutory maximum of 4 percent of each ensuing year's budget. During these four years, District officials appropriated \$3.2 million in fund balance that was not needed to fund the budgets, and transferred approximately \$1.1 million to the District's reserves

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, minus appropriated fund balance, amounts reserved for insurance recovery and tax reduction, and encumbrances included in committed and assigned fund balance (post-Statement 54).

² Under GASB Statement 54, the 4 percent limitation should be applied to unrestricted fund balance (i.e., the total of the committed, assigned and unassigned classifications), minus appropriated fund balance, amounts reserved for insurance recovery, amounts reserved for tax reduction and encumbrances included in committed and assigned fund balance. Funds properly retained under other sections of law (i.e., reserve funds established pursuant to Education Law or General Municipal Law) are also excluded from the 4 percent limitation.

with no documented plan or justification for the excessive funding levels, which effectively allowed it to circumvent the statutory limits. District officials have exceeded the 4 percent fund balance limit by an average of approximately \$1.1 million in the fiscal years 2009-10 through 2012-13, levied more real property taxes than necessary and retained large amounts of taxpayer dollars without full disclosure of how these funds will be used.

Budgeting Practices

It is essential for Board members to know the District’s financial condition and develop realistic, structurally balanced budgets to finance operations. In preparing the budget, the Board and District officials are responsible for using the most reliable information available to help ensure that the levy of real property taxes is not greater than necessary.

Expenditure Estimates – Expenditure estimates should be developed based on prior years’ operating results, past expenditure trends, anticipated future needs and available information from outside sources related to projected changes in significant revenues or commodity prices. Unrealistic budget estimates can be misleading to District residents and can significantly impact the District’s year-end fund balance and financial condition.

District officials consistently presented, and the Board consistently approved, inaccurate budgets, which generated additional surplus funds each year. We compared the District’s general fund budgeted expenditures with actual results of operations for the last four fiscal years. For the 2009-10 through 2012-13³ fiscal years, District officials overestimated expenditures by at least \$1 million per year, totaling about \$5.5 million for the four-year period. These budgetary surpluses primarily generated operating surpluses which District officials routinely retained instead of using them to benefit taxpayers.

Table 1: Budgeted Appropriations and Actual Expenditures

Fiscal Year	2009-10	2010-11	2011-12	2012-13	Total
Appropriations^a	\$13,858,543	\$13,604,553	\$13,942,601	\$13,739,364	\$55,145,061
Actual Expenditures^b	\$12,670,692	\$12,578,138	\$12,131,954	\$12,296,143	\$49,676,927
Expenditure Variance	\$1,187,851	\$1,026,415	\$1,810,647	\$1,443,221	\$5,468,134
Operating Surplus	\$926,285	\$576,750	\$627,639	\$602,797	\$2,733,471

^a Budget amounts are from the original budgets submitted to taxpayers for approval prior to any adjustments through the fiscal year.

^b Actual amounts expended include amounts encumbered as of June 30 of each fiscal year.

³ At the end of fieldwork, we reviewed preliminary District revenue and appropriation status reports for 2012-13 and included 2012-13 amounts in our tables for an up-to-date perspective.

District officials overestimated salaries by a total of \$2.7 million over the last four years, including related fringe benefits and retirement contributions. For example, officials overestimated instructional costs by \$361,027 and \$257,478 and employee benefits by \$676,347 and \$255,841 for the 2011-12 and 2012-13 fiscal years, respectively. District officials told us that these overestimated expenditures were the result of conservative budgeting. However, District officials could easily have calculated and provided the Board with more accurate projections for each of these expenditure accounts. When preparing the budget, District officials have prior years' budget-to-actual results which should be used, in part, to estimate the ensuing year's appropriations. When reviewing budget-to-actual information, one year's results may not be an accurate reflection of cost changes; therefore, consideration of more than one year's actual results should be made, which can serve as a good indicator as to the accuracy of the budgetary estimates. For instance, appropriations for "instructional salaries" included a line for "non-instructional salaries" in excess of \$100,000 that had not been used in the 2011-12 and 2012-13 fiscal years, and scantily used prior to that.

The District's failure to use realistic estimates created annual operating surpluses, resulting in the accumulation of excessive fund balance. Overestimating budgetary expenditures places a higher tax burden on District taxpayers than is necessary.

Fund Balance – The estimation of fund balance is an integral part of the budget process. Fund balance represents resources remaining from prior fiscal years that can be assigned⁴ as a funding source in the budget or retained as unassigned. Unreserved fund balance is uncommitted and therefore may be appropriated in the budget to fund District operations. The unreserved and unappropriated portion of fund balance allows the District to manage unexpected occurrences such as emergency repairs, price fluctuations in essential commodities (e.g., utilities and gasoline) and shortfalls in estimated revenues. Real Property Tax Law (Law) limits the amount of unexpended surplus funds that the District can retain to no more than 4 percent of the ensuing fiscal year's budget. Any fund balance in excess of 4 percent of the ensuing year's budget should be used to lower property taxes or transferred to reserve funds that are reasonable and in compliance with statutory directives. When fund balance is assigned as a funding source, it reduces the fund balance included in the 4 percent calculation. The expectation is that there will be a planned operating deficit in the ensuing fiscal year, financed by the amount of the assigned fund

⁴ Prior to June 2011, assigned fund balance was referred to as appropriated fund balance. In addition, unassigned fund balance was referred to as unappropriated fund balance. The terminology was changed pursuant to GASB 54.

balance. It is important that District officials not assign fund balance that will not be used, in an effort to circumvent the statutory limit.

For the 2009-10 through 2012-13 fiscal years, District officials assigned fund balance in the budgets to indicate that planned operating deficits for those years would require a total of \$3.2 million of fund balance to cover expenditures (Table 2). Although the appropriations of fund balance reduced the general fund's unappropriated fund balance, the appropriations did not reduce fund balance to the 4 percent level. Furthermore, the budgets resulted in operating surpluses each year that totaled \$2.7 million over the four years. Therefore, most of the \$3.2 million of fund balance that was appropriated was not used to fund operations.

Fiscal Year	2009-10	2010-11	2011-12	2012-13	Total
Assigned Fund Balance^a	\$500,000	\$458,000	\$1,255,104	\$1,009,005	\$3,222,109
Actual Revenues	\$13,423,469	\$13,046,976	\$12,632,771	\$12,788,383	\$51,891,599
Actual Expenditures	\$12,497,184	\$12,470,226	\$12,005,132	\$12,185,586	\$49,158,128
Operating Surplus	\$926,285	\$576,750	\$627,639	\$602,797	\$2,733,471

^a Designated for subsequent year's expenditures

Furthermore, the annual operating surpluses increased fund balance, causing the District to further exceed the 4 percent unexpended fund balance limit by the end of each fiscal year. To reduce the unexpended fund balance, District officials transferred unexpended surplus funds to the District's reserves. However, the Board did not include the transfers to the reserves in the budgets which would have been more transparent to District residents. The District's unexpended surplus funds exceeded the maximum allowed by Law for the last four completed fiscal years as follows:

Fiscal Year	2009-10	2010-11	2011-12	2012-13
Unexpended Surplus Funds as of June 30	\$1,608,990	\$934,232	\$1,470,464	\$2,598,815
Ensuing Year's Budgeted Appropriations	\$13,604,553	\$13,942,601	\$13,739,364	\$13,535,365
4% Limit for Unexpended Surplus Funds	\$544,182	\$557,704	\$549,575	\$541,415
Excess Unexpended Surplus Funds	\$1,064,808	\$376,528	\$920,889	\$2,057,400

Based on our review of the District's adopted 2013-14 budget, with appropriations of \$13.5 million, estimated revenues of \$13 million and appropriated fund balance of \$499,995, it appears the District will likely generate an operating surplus for 2013-14 similar to those of the previous five fiscal years and will likely end the fiscal year with a surplus consistent with prior years.

District officials told us the surplus funds are needed to maintain programs, to continue operations in future years and to be prepared for the unexpected. For instance, 17 new students were added in the summer of 2012 resulting in an additional class being added in the fall of 2012. Although the new students did increase costs, the District had sufficient resources to address the need while still exceeding the 4 percent statutory fund balance limit. The Board is not adhering to the Law and is placing an unnecessary tax burden on District taxpayers by continually retaining unexpended surplus funds that exceed the 4 percent threshold. Had District officials budgeted appropriately and reduced fund balance to the required level, real property taxes could have been lowered.

Reserves

Reserve funds may be established by Board action pursuant to various laws and are used to provide financing only for specific purposes. The statutes under which the reserves are established determine how the reserves may be funded, expended or discontinued. While the District is not limited in the balance it can maintain in a reserve fund, prudent budgeting practices require that reserves correspond as closely as reasonably possible to the District's anticipated liabilities so that funds are not unnecessarily restricted. Funding reserves at greater than reasonable levels essentially results in real property tax levies that are higher than necessary because the excessive reserve balances are not being used to fund operations.

The Board should have a formal plan for the use of its reserves, including how and when disbursements should be made, optimal or targeted funding levels, and procedures for ensuring that appropriate documentation is maintained to account for and monitor reserve activity and balances. Ideally, the Board should include amounts to be placed in reserve funds in the annual budget to inform voters of the Board's plan for funding reserves and should not routinely fund reserves with excess fund balance at year-end. If the Board decides to make unbudgeted transfers to reserves, it must authorize them by a resolution, which specifies the amounts and the reserves to be increased to promote transparency of the Board's actions.

As of June 30, 2013, the District had four reserves in the general fund with reported balances totaling approximately \$1.1 million, which had increased by more than \$800,000 since June 30, 2010.

Reserve	2009-10	2010-11	2011-12	2012-13
Retirement Contribution	\$95,000	\$505,000	\$505,000	\$505,000
Tax Certiorari Claims	\$0	\$110,000	\$110,000	\$110,000
Repair	\$100,000	\$100,000	\$400,000	\$400,000
Unemployment Insurance	\$85,000	\$85,000	\$85,000	\$85,000
Total	\$280,000	\$800,000	\$1,100,000	\$1,100,000

The Board did not include in its adopted budgets any transfers of surplus funds to the District’s reserves. Therefore, these unbudgeted transfers to fund reserves were made well after the budget vote, without prior communication to and approval by District voters. Although the Board passed resolutions for funding the reserves, the Board has not adopted a policy or plan regarding accumulating and using moneys in the reserves to ensure that the amounts are necessary, reasonable and in compliance with statutory requirements. Furthermore, rather than pay applicable expenses from reserve moneys when available, the Board chose to pay expenses from budget appropriations.

Reserve	2009-10	2010-11	2011-12	2012-13	Total
Retirement Contribution	\$70,575	\$102,671	\$104,147	\$153,596	\$430,989
Tax Certiorari Claims	\$7,096	\$0	\$6,934	\$6,629	\$20,659
Repair	\$0	\$680	\$0	\$9,410	\$10,090
Unemployment Insurance	\$43,692	\$51,084	\$13,467	\$11,286	\$119,529

Retirement Contribution Reserve – General Municipal Law (GML) restricts the use of this reserve to payments to the New York State and Local Retirement System (NYSLRS). While the District has funded this reserve with excess fund balance totaling \$505,000,⁵ the District has not used funds in this reserve to make payments to NYSLRS. The Board consistently budgeted for and paid retirement contributions each fiscal year directly from the general fund. In effect, the Board levied real property taxes to make annual payments (Table 5) while maintaining over \$500,000 in the reserve fund (Table 4). The Superintendent told us this reserve was intended for retirement payments to teachers, which would be an inappropriate use for this reserve. Had these funds remained in the District’s general fund balance, they could have been used to benefit District taxpayers by paying off debt, financing one-time expenditures or reducing property taxes.

⁵ \$95,000 on June 8, 2009 and an additional \$410,000 in 2010-11

Tax Certiorari Claims Reserve – A tax certiorari is a legal proceeding whereby a taxpayer challenges a locality’s tax assessment on the grounds of excessiveness, inequality, illegality or misclassification. Education Law authorizes school districts to establish a reserve fund for payments and claims related to tax certiorari proceedings. A school district may establish a reserve fund for the potential cost of tax certiorari proceedings without approval by voters, provided the total moneys in the reserve do not exceed the amounts reasonably deemed necessary to meet anticipated judgments and claims.

The Board established a \$110,000 tax certiorari reserve in June 2011. However, District officials did not have claims or a schedule to support the establishment of the reserve fund and the amount placed in the reserve. We reviewed all claims submitted to the District for the fiscal years 2009-10 through 2011-12. No claims were submitted in 2010-11, the year the reserve was established. The annual tax refund claims for 2009-10 and 2011-12 were approximately \$7,000 per year. Furthermore, the District did not use the reserve to pay settled tax certiorari claims. According to the Business Manager, the District used available general fund resources to pay settled claims rather than reserve funds.

By significantly overfunding the tax certiorari reserve fund, District officials understated unexpended fund balance surplus. If, in the 2010-11 fiscal year, these moneys had remained in the general fund balance or unused funds were returned to general fund balance, they could have been used to benefit District taxpayers by reducing debt, paying one-time expenditures or reducing property taxes.

Repair Reserve – GML authorizes school districts to establish a reserve fund to pay for certain repairs to capital improvements or equipment that do not recur annually or at shorter intervals. The District established a \$100,000 repair reserve in the 2008-09 fiscal year to cover the repair costs of equipment and capital improvements. Although the District has no formal capital plan for use of this reserve and has not used the reserve for the last four fiscal years, the Board transferred surplus funds of \$300,000 to this reserve in the 2011-12 fiscal year. The District has a list of needed repairs and the Board is currently discussing reserve fund use. As of August 2013, the Board had not finalized its plans. We question the necessity for this reserve fund because of a lack of use and no formal plan for its prospective use. The Board may discontinue this reserve fund if it determines that it is unnecessary. However, moneys from the discontinued reserve may only be transferred to another legal reserve, as authorized by Education Law.

Unemployment Insurance Reserve – GML authorizes districts to create a reserve to reimburse the State Unemployment Insurance Fund for payments made to claimants. The District transferred \$85,000 of excess fund balance to this reserve in the 2009-10 fiscal year. The District made payments from annual budget appropriations totaling \$119,529 for the four year period July 1, 2009 through June 30, 2013, an average of \$29,882 per year. The reserve balance of \$85,000 is approximately three times average annual expenditures. The reserve balance appears to be excessive because there is no formalized Board plan explaining the need and rationale for such a funding level.

District officials have adopted budgets that generated significant operating surpluses. During the period July 1, 2009 through June 30, 2013, the District had operating surpluses of \$2.7 million and transferred \$1.1 million into reserve funds without doing so through the budget process. In addition, the District budgeted for \$3.2 million of excess unexpended surplus fund balance to be used during this time but did not use any of this amount. In effect, the District was funding reserves and retaining tax dollars in an attempt to retain additional funds for unspecified future needs. The District could have used these unexpended surplus funds to reduce debt, pay one-time expenses or reduce property taxes.

Recommendations

1. The Board and District officials should develop realistic budget estimates using actual financial results from prior years to project expenditures.
2. The Board should ensure unexpended surplus fund balance is within the allowed legal limits.
3. The Board and District officials should develop comprehensive policies and procedures related to the establishment and use of reserve funds.
4. The Board and District officials should review all reserves and determine if the amounts reserved are necessary, reasonable and in compliance with statutory requirements.
5. District officials should include the funding of all reserves in their adopted budget plan so that funding the reserves is done in a transparent manner.
6. District officials should develop a plan for the use of unexpended surplus funds and excess reserve funds identified in this report 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 and increasing necessary reserves in accordance with established and reasonable plans and statutory requirements.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



GERMANTOWN CENTRAL SCHOOL DISTRICT

123 Main Street, Germantown, New York 12526-5338

January 8, 2013

Chief Examiner
Division of Local Government and School Accountability
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, NY

Dear Chief Examiner:

I am writing to express appreciation for the professionalism shown to our District officers and Administrative personnel by the audit team during the course of the audit proceedings and for the thoroughness of the explanation of their findings during the post audit exit interview. The purpose of this letter is to respond to those findings and recommendations.

Budget Estimating

The Report cites a consistent pattern over the past four years whereby the annual budget appropriations exceeded the actual expended budgets by at least \$1,000,000 each year. For example, in 2010-11 the percentage of actual expenditures to appropriations indicated a 8.9% discrepancy. The audit team noted it was well in excess of the 4% unassigned fund balance that may be retained pursuant to Section 1318(1) of the Real Property Tax Law, before considering assignment of surplus fund balances to reserve funds.

We acknowledge that a wide discrepancy between the appropriated and expended budget is excessive and measures will be taken through the corrective action plan (CAP) that will reasonably assure that the discrepancy will not be nearly that pronounced. Budgeting is obviously not a precise science, as all municipal budgets are based upon good faith estimates. Indeed, our State's finance laws recognize that there could be shortfalls in budget estimating as great as 5% that may be addressed through budget notes issued by a municipal governing body. (See Section 29:00 Local Finance Law). That may be why originally the margin that school districts were allowed to retain from year to year as unassigned fund balance under the former Section 1318(1) RPTL was 5%.

Corrective Action: The school district, commencing with the 2014-15 school year budget will review the expenditure trends of the budget for each of the functional units, over the past three year period, and use no more than a 5% appropriation inflation factor, unless

there is reason to believe that a greater percentage increase is warranted. Through this process, the school district should, with facility, be able to meet the 4% limitation of Section 1318(1) R.P.T.L.

Reserve Funds

The Report cites the school district for excessively funding reserve funds, thereby requiring a greater tax levy than would otherwise be the case. The audit team recommended that the Board develop a formal plan and that transfers into reserve funds be included in the adopted annual budget. Finally, the audit team cited that expenditures from the school district's general fund were made for items that could have been funded from reserve funds (i.e. ERS contributions) and those monies from the ERS reserve fund were used to pay for TRS contributions. The Tax Certiorari Reserve Fund was cited for being over-funded because the school district did not have a schedule depicting the amounts of assessment reductions set forth in the petitions that were served upon the District and the payouts were far less than the amounts reserved. Finally, the Repair Reserve Fund was cited for being augmented without a formal capital repair plan for the use of these funds.

The funding of Reserve Funds in the past has not been effectuated through the development of a formal plan as recommended by the Comptroller's audit team. It is recognized that following a plan would not only assures that systematic attention will be paid to this part of the District's fiscal proceedings, but, would also facilitate meeting the 4% unassigned fund balance mandate of Section 1318(1) R.P.T.L. As stated at the exit interview, monies from the ERS Reserve Fund were not used to pay for TRS contributions, as may have been mistakenly mentioned to the audit team by a prior administrator.

Corrective Action: Effective with the 2014-15 budget proceedings, the school district shall implement the following plan regarding its budget proceedings and the reserve funds:

1. A Reserve Fund Status Report shall be prepared for the Board by no later than April 1st each school year that informs of the expenditure to date from the fund for that year with recommendations for replenishment or reduction. Additional funding may be added after the adoption of the budget, but no later than immediately preceding the issuance of the District's tax warrant for the ensuing school year; provided, however, that the funding of the Tax Certiorari Reserves for a school year shall be voted upon by the Board of Education based upon new filings for that fiscal year by no later than June 30th.
2. The funding of the Tax Certiorari Reserve Fund shall be based upon a percentage of the total amount of the assessment reduction that is deemed to be reasonably calculated to cover the contingent liability without the requirement of bonding a settlement amount or a court ordered refund. The amounts to be reserved shall be upon the advice of the school business administrator and the school district's legal counsel.

3. By April 1st each year, administration shall inform the Board regarding the potential use of monies in the Section 6-d General Municipal Law Repair Reserve Fund for capital repairs and capital preservation projects. Voter approval shall be required upon due notice in the District's budget proceedings for the placement of any additional monies to be expended from this reserve fund.

4. To avoid retaining unassigned fund balance in excess of the 4% limit of Section 1318(1) R.P.T.L., the Board shall, prior to voting upon the tax warrant for a given school year: meet to review the encumbrances for purchase orders from the previous school year, the amounts set aside or to be assigned to reserve funds, existing debt that may be subject to reduction and the calculation of the 4% limitation on unassigned, unreserved fund balance.

Sincerely,

Susan LS Brown
Superintendent of Schools

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to evaluate the District's financial management. To achieve our objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed District officials to determine what processes were in place and gained an understanding of the District's financial position and budgetary practices.
- We reviewed the Board minutes and, where needed, Board resolutions from prior years.
- We reviewed and analyzed the District's financial records and reports, including balance sheets, budget reports, and statements of revenues and expenditures.
- We obtained an understanding of the District's internal controls related to the District's financial recording, reporting and monitoring processes.
- We reviewed minutes related to the establishment and funding of reserves.
- We analyzed the reserve account changes and the changes in fund balance of the general fund.
- We obtained an understanding of the District's internal controls related to the reserve funds and filing of legally required documents.

We conducted this performance audit in accordance with generally accepted government auditing standards (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 C

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