



# Connetquot Central School District Financial Condition

## Report of Examination

Period Covered:

July 1, 2013 — November 30, 2014

2015M-98



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**

August 2015

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Connetquot 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 Connetquot Central School District (District) is located in the Town of Islip in Suffolk County. The District is governed by the Board of Education (Board), which comprises five elected members. The Board is responsible for the general management and control of District financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The District operates 11 schools with approximately 6,300 students and 1,300 employees. The District's 2013-14 expenditures were \$167.3 million, which were funded primarily with State aid, real property taxes and grants. The 2014-15 budgeted appropriations were approximately \$177.6 million.

## **Objective**

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

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

## **Scope and Methodology**

We examined the District's financial records for the period July 1, 2013 through November 30, 2014. We extended our scope period back to July 1, 2011 and expanded our scope period forward through March 31, 2015 to analyze the District's financial condition and to provide perspective and background information.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit 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. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the Agency's response letter.

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

Proper budget development begins with identifying and estimating the necessary expenditures to carry out the educational and other programs the Board provides to District students. The Board must next identify and estimate the revenues, other than real property taxes, that should be available to finance planned expenditures. The Board must also estimate the amount of unrestricted fund balance (which represents resources remaining from prior fiscal years) that will be available at year-end, some or all of which may be used to pay for unexpected expenditures or fund the ensuing year's appropriations. After taking these factors into account, the Board establishes the expected tax levy necessary to fund operations. Accurate estimates help ensure that the real property tax levy is not greater than necessary.

The Board and District officials did not effectively manage the District's financial condition by ensuring budget estimates were reasonable. The Board did not adopt realistic budgets based on historical costs and trends. As a result, the District overestimated expenditures by a total of \$33.5 million from July 1, 2011 through June 30, 2014. Additionally, the District consistently appropriated fund balance that was not needed to finance operations which, in effect, exceeded the statutory limit on unassigned fund balance.<sup>1</sup> Finally, District officials used surplus funds each year to finance reserves instead of funding reserves through the annual budget process, which would have been more transparent to taxpayers. The Board made transfers into its reserves totaling about \$10.6 million from unrestricted fund balance without sufficiently informing taxpayers of its intent to do so.

### Overestimated Expenditures

Revenue and expenditure estimates should be developed based on prior years' operating results, past expenditure trends, anticipated future needs and available information related to projected changes in significant revenues or expenditures. Unrealistic budget estimates can mislead District voters and taxpayers and can significantly impact the District's year-end unrestricted fund balance and financial condition. Prudent fiscal management can also include funding reserves to address long-term obligations or planned future expenditures. In doing so, District officials should ensure that voters are fully informed of all reserve funding and activity.

We compared the District's budgeted revenues and appropriations with actual results of operations and found that District officials

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<sup>1</sup> New York State Real Property Tax Law requires that unassigned fund balance not exceed 4 percent of the ensuing year's budget appropriations.

consistently presented, and the Board approved, budgets which significantly overestimated expenditures from 2011-12 through 2013-14. District officials overestimated expenditures by a total of \$33.5 million over these three years, an average of about \$11.2 million each year.

<b>Figure 1: Overestimated Expenditures</b>			
<b>Fiscal Year</b>	<b>Budgeted Appropriations<sup>a</sup></b>	<b>Actual Expenditures</b>	<b>Overestimated Expenditures</b>
2011-12	\$165,274,024	\$154,585,654	\$10,688,370
2012-13	\$170,262,966	\$156,714,724	\$13,548,242
2013-14	\$176,611,242	\$167,336,995	\$9,274,247
<b>Total</b>	<b>\$512,148,232</b>	<b>\$478,637,373</b>	<b>\$33,510,859</b>
3-Year Annual Average	\$170,716,077	\$159,545,791	\$11,170,286

<sup>a</sup> Includes year-end encumbrances from the prior fiscal years totaling approximately \$1.4 million.

The majority of overestimated expenditures during the three-year period were for employee health insurance (\$11.6 million), teachers' salaries regular school (\$7.7 million), operation of plant<sup>2</sup> (\$2.4 million) and Social Security (\$2.3 million). Although overestimating expenditures was cited in our report issued in 2008,<sup>3</sup> this practice has continued.

We reviewed the results of operations for 2014-15 as of March 31, 2015 and projected employee health insurance, teachers' salaries, Social Security and operation of plant expenditures based on prior year trends. Based on our projection, as of June 30, 2015 the District will have potentially overestimated these expenditures by approximately \$8.4 million as follows: employee health insurance – \$5.8 million, teachers' salaries – \$1.4 million, Social Security – \$1 million and operation of plant – \$234,000.

### **Unassigned Fund Balance**

Unassigned fund balance that exceeds the 4 percent statutory limit should be used to lower real property taxes, increase necessary reserve funds, pay for one-time expenditures or pay down debt. When fund balance is appropriated as a funding source, it reduces the fund balance included in the 4 percent calculation and the expectation is that there will be a planned operating deficit in the ensuing fiscal year, financed by the amount of the appropriated fund balance. Conversely, an operating surplus (when budgeted appropriations are not fully

<sup>2</sup> Maintenance and operation of District buildings

<sup>3</sup> *Connetquot Central School District – Internal Controls Over Financial Operations, 2008M-115*, issued in October 2008, in which we reviewed budgeted appropriations from 2004-05 through 2006-07

expended, expected revenues are greater than estimated or both) increases the total year-end fund balance and can indicate that budgets are not realistic. It is not sound practice for District officials to adopt annual budgets that appropriate fund balance or reserve funds that exceed the statutory limit. Ideally, District officials should include in the annual budget the amounts they anticipate placing in reserve funds instead of routinely using surplus funds to increase reserves at year-end.

The District reported year-end unassigned fund balance at levels that essentially complied with the 4 percent fund balance limit for fiscal years 2011-12 through 2013-14. This was accomplished, in part, by appropriating fund balance and funding reserves. District officials' appropriation of fund balance aggregated to more than \$16.5 million over the past three years, an average of more than \$5.5 million per year, which should have resulted in planned operating deficits. However, because the Board had a long standing practice of significantly overestimating expenditures in its adopted budgets, the District experienced operating surpluses in 2011-12 and 2012-13 totaling \$6.2 million and did not need the appropriated fund balance included in its budgets. District officials had appropriated \$4.9 million of fund balance but used \$3.4 million to finance operations in 2013-14.

**Figure 2: Unassigned Fund Balance at Year-End**

	2011-12	2012-13	2013-14
Beginning Fund Balance	\$11,252,258	\$14,162,111	\$18,701,092
Plus/(Less): Operating Surplus/(Deficit)	\$1,860,633	\$4,289,346	(\$3,392,895)
<b>Unrestricted Funds - Subtotal</b>	<b>\$13,112,891</b>	<b>\$18,451,457</b>	<b>\$15,308,197</b>
Less: Appropriated Fund Balance <sup>a</sup>	\$6,886,493	\$4,886,493	\$4,751,745
Less/(Plus): Transfers to/(from) Reserves <sup>b</sup>	(\$1,049,220)	(\$1,329,980)	\$3,011,112
Less: Encumbrances	\$484,480	\$564,427	\$441,619
Less: Prior Period Adjustment	\$0	\$1,080,345	\$0
<b>Unassigned Funds at Year-End</b>	<b>\$6,791,138</b>	<b>\$13,250,172</b>	<b>\$7,103,721</b>
Ensuing Year's Budget	\$169,778,486	\$176,046,815	\$177,593,052
Reported Unassigned Funds as Percentage of Ensuing Year's Budget	4%	8%	4%
Appropriated Fund Balance From Prior Year Not Used <sup>c</sup>	\$4,300,500	\$6,886,493	\$1,493,598
<b>Actual Unassigned Funds Resulting From Unused Appropriated Fund Balance<sup>d</sup></b>	<b>\$11,091,638</b>	<b>\$20,136,665</b>	<b>\$8,597,319</b>
Actual Unassigned Funds as Percentage of Ensuing Year's Budget	7%	11%	5%
<sup>a</sup> Does not include funds totaling \$12,125,660 appropriated from reserves to fund the 2012-13 through the 2014-15 budgets <sup>b</sup> Net changes to reserves <sup>c</sup> Does not include funds totaling \$10,690,189 appropriated from reserves to fund the 2011-12 through the 2013-14 budgets <sup>d</sup> To calculate the actual unassigned funds resulting from unused appropriated fund balance, we added unused appropriated fund balance from the prior year to the unassigned funds at year-end.			

The planned deficits did not always materialize because the Board adopted budgets that included inflated expenditure estimates. These positive budget variances diminished the effect of the annual fund balance appropriation in the District's adopted budgets and often led to an increase in unassigned fund balance, or a much smaller decrease than planned. For each of the past three years, the District's actual unassigned fund balance was at least \$8.6 million. As a result, the District effectively retained fund balance beyond the legally allowable amount in all three years.

## Reserves

Unrestricted fund balance may be restricted or reserved for particular purposes or appropriated to reduce the real property tax levy. When District officials establish a reserve, it is important that they develop a policy for how to fund the reserve, how much should be accumulated and how and when these funds will be used to finance related costs. Such a plan serves to guide District officials in the accumulation and use of reserved funds and to inform District residents about the use of their tax money. Ideally, transfers to reserve funds should be included

in the annual adopted budget instead of routinely using surplus funds to increase reserves at year-end. Making clear provisions to raise resources for reserve funds in the proposed budget will give voters and residents the opportunity to know the Board's plan for funding reserves, which increases transparency.

The District does not have a policy to communicate to taxpayers the purpose of reserve funds, optimal funding levels and conditions under which the funds will be used or replenished. Additionally, the Board and District officials have not included provisions in the budget for funding reserves. Instead, the Board passed resolutions at the end of each fiscal year to increase most reserves using year-end unrestricted fund balance either by specifying the amount to be transferred or increasing the funding limit. As of June 30, 2014, the District had seven reserve funds totaling approximately \$30.2 million.<sup>4</sup>

From 2011-12 through 2013-14, the Board appropriated about \$10.7 million from all of the reserve funds to offset a portion of expenditures in the adopted budgets during these years. Despite routinely appropriating reserve fund balances, the District was able to fully restore or increase most of the reserve balances<sup>5</sup> at year-end and essentially did not use the reserves because the District ended those years better off financially than planned.

We reviewed the District's retirement, unemployment and workers' compensation reserves<sup>6</sup> and found that the Board appropriated a total of \$9.8 million from these reserves to offset the cost of related expenditures. However, during that same period, the Board funded these three reserves with \$10.5 million from unrestricted fund balance. For example, from 2011-12 through 2013-14, District officials appropriated \$6.1 million from the retirement contribution reserve fund to offset the cost of annual retirement contributions to the New York State and Local Retirement System (NYSLRS). Contributions to NYSLRS during this three-year period totaled \$9.8 million. District officials transferred about \$7.1 million into this reserve, increasing it from \$9.6 million as of June 30, 2012 to \$10.6 million as of June 30, 2014.

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<sup>4</sup> The approximate reserve balances as of June 30, 2014 were as follows: employee benefit accrued liability – \$8.4 million, capital – \$100,000, insurance – \$300,000, repairs – \$100,000, retirement contribution – \$10.6 million, unemployment – \$3 million and workers' compensation – \$7.7 million.

<sup>5</sup> Five reserves increased from 2011-12 through 2013-14 (unemployment, retirement contribution, insurance, capital and repairs) and two reserves decreased (employee benefit accrued liability and workers' compensation).

<sup>6</sup> See Appendix B for information on our sampling methodology.

The District budgets presented to taxpayers included budgeted appropriations from reserves to fund expenditures and reduce real property taxes. However, the publicized budget notices did not include funds appropriated from unrestricted fund balance to fund reserves at year-end totaling about \$10.6 million. Instead the Board used resolutions at year-end to notify taxpayers of its decision to use fund balance to increase reserves.<sup>7</sup>

The District's practice of consistently appropriating fund balance that was not needed to finance operations and transferring surplus to fund reserves in effect exceeded the statutory limitation. This resulted in significant funds being withheld from productive use and the taxpayers not being presented with the District's true financial condition. Had District officials used more realistic budget estimates and informed residents of their intent to increase reserve funds during the budget process, they could have avoided the accumulation of excess fund balance and possibly reduced the tax levy.

## Recommendations

The Board should:

1. Adopt budgets that reflect the District's actual needs based on historical trends or other identified analysis.
2. Ensure that the amount of unassigned fund balance is in compliance with the statutory limits.
3. Discontinue the practice of adopting budgets that fund operations by appropriating fund balance and funding reserves that are not needed to fund District operations.
4. Develop a plan to reduce the amount of unassigned fund balance in a manner that benefits District taxpayers. Such uses could include, but are not limited to, reducing District real property taxes, financing one-time expenditures and paying off debt.
5. Ensure that annual proposed budgets include the amounts of appropriated fund balance planned to fund reserves as a way to enhance transparency to the taxpayers.
6. Develop a plan determining how to fund the reserve funds, specifying the funding levels to be maintained and indicating how and when these funds should be used.

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<sup>7</sup> The workers' compensation reserve fund balance exceeded the Board-authorized funding level by \$900,000 as of June 30, 2011 and \$517,674 as of June 30, 2012. The retirement contribution reserve exceeded the Board-authorized funding level by \$1.6 million as of June 30, 2011 and \$1 million as of June 30, 2012. Both reserves were within the Board-authorized funding levels as of June 30, 2013.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



**CONNETQUOT CENTRAL SCHOOL DISTRICT OF ISLIP**  
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District Website: www.ccsdli.org

**Lynda G. Adams**  
*Superintendent of Schools*

**Board of Education**

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**Craig Amarando, *Vice President***  
**Nicholas Ferraioli**  
**Theodore J. Imbasciani**  
**Lee Kennedy**

**Andrea B. Wilson, *District Clerk***

July 30, 2015

Office of the State Comptroller  
Division of Local Government and School Accountability  
New York State Office Building/Room 3A10  
250 Veterans Memorial Highway  
Hauppauge, NY 11788-5533

Dear Sir:

On June 16, 2015, the Superintendent and Board of Education of the Connetquot Central School District of Islip received the preliminary draft audit report of the recent audit by the Office of the State Comptroller that occurred between December 2014 and February 2015.

The following is a response to the draft audit results and recommendations. On behalf of the District, we appreciate the Office of the State Comptroller's efforts to identify opportunities, through the audit process, to strengthen internal controls and improve the District's operations. I would also like to commend the audit team for their professionalism and courtesy in undertaking their responsibilities and interacting with District personnel throughout the entire audit process.

The Board of Education and District Administration strive to follow the highest standards of fiscal management. To this end, we have and will continue to support and implement improvements in our operations recommended by the Office of the Comptroller. The State Auditors found no fraud, no overpayments of contracts, no issues with bidding or RFP's, and no lack of backup materials. The preliminary audit report addresses several items concerning financial condition.

Overestimated Expenditures

*Revenue and expenditure estimates should be developed based on prior years' operating results, past expenditure trends, anticipated future needs and available information related to projected changes in significant revenues or expenditures. Unrealistic budget estimates can mislead District voters and taxpayers and can*

*significantly impact the District's year-end unrestricted fund balance and financial condition. Prudent fiscal management can also include funding reserves to address long-term obligations or planned future expenditures. In doing so, District officials should ensure that voters are fully informed of all reserve funding and activity.*

The District is faced with many unknown factors when projecting financial obligations at the time its budget is prepared. Among these are salary increases for collective bargaining units for years when there was no contract in effect. If contract negotiations do not result in an agreement during a fiscal year, the increases are not paid out; however, this budgeted amount eventually will be needed at least in some part as the District will be obligated to pay out retroactive payments for years when the contract was expired and remained unsettled. The contracts for the Connetquot Transportation Unit, Clerical Unit, Operations Unit, Teachers Assistants & Aides Unit contracts all expired on 6/30/12. The Supervisors/Administrators Unit contract expired on 6/30/13. These five contracts were recently settled in late Spring of 2015. The Principals Unit contract expired on 6/30/12, and remains unsettled as of this writing. Another unknown factor is benefits amounts, which are dependent upon salary amounts which may or may not include salary increases for the current year and the years for which no contract was in effect. Further, health insurance premium projections the District receives during budget preparation contain a wide range of increase estimators. For the 2016 premium projection, the rate increase projections ranged from a low of 4.6% to a high of 11.1%. Some sources expected the premium increase to be in the range of 5% or 5.5%. The District just received notification last month that the premium increase is now *projected* to be 7.5%.

In years past, the District established and funded reserves as a tool to avoid wide variations in the tax rate from year to year, which had previously occurred. This resulted in budget stabilization and full funding of the District reserves which had been depleted in prior years. A direct benefit of such a positive financial condition is the District's Aa2 Moody's rating which has saved the District taxpayers in interest. The District informs voters during budget presentations of its planned use of reserve funding and activity. Additionally, reserve activity is fully disclosed in the District's financial statements.

See  
Note 1  
Page 14

#### Unassigned Fund Balance:

*Unassigned fund balance that exceeds the 4 percent statutory limit should be used to lower real property taxes, increase necessary reserve funds, pay for one-time expenditures or pay down debt. When fund balance is appropriated as a funding source, it reduces the fund balance included in the 4 percent calculation and the expectation is that there will be a planned operating deficit in the ensuing fiscal year, financed by the amount of the appropriated fund balance.*

In the 2013/14 budget, the District decreased the amount of appropriated fund balance used to fund the budget by \$2,000,000 to \$4,886,493; and, there was, in fact, an operating deficit of \$3,392,895 against which the appropriated fund balance was applied to finance

See  
Note 2  
Page 14

operations. Appropriated fund balance was further reduced in 2014/15 to \$4,751,745 and in 2015/16 to \$3,644,019.

See  
Note 2  
Page 14

The District's year-to-year budget increases have decreased from 3.69% in 2013/14 to 0.88% in 2014/15 and to 1.45% in 2015/16.

	2012/13	2013/14	2014/15	2015/16
Appropriated Fund Balance	6,886,493	4,886,493	4,751,745	3,644,019
Budget Increase over Prior Year	2.95%	3.69%	0.88%	1.45%
Tax levy increase	2.00%	4.17%	1.8%	1.25%

Reserves:

*Unrestricted fund balance may be restricted or reserved for particular purposes or appropriated to reduce the real property tax levy. When District officials establish a reserve, it is important that they develop a policy for how to fund the reserve, how much should be accumulated and how and when these funds will be used to finance related costs. Such a plan serves to guide District officials in the accumulation and use of reserved funds and to inform District residents about the use of their tax money. Ideally, transfers to reserve funds should be included in the annual adopted budget instead of routinely using surplus funds to increase reserves at year-end.*

Money held in a reserve fund can only be expended for the purpose of the reserve. The excess money was transferred to reserve funds recorded on the balance sheet of the general fund, and all of the reserves were operated according to General Municipal Law and Education Law. The books of the District properly segregate the transactions for each reserve fund, and the money placed into these reserves was in accordance with resolutions passed at or near each fiscal year-end in a public session of a board meeting, and such funding of reserves is discussed at board meetings throughout the year and especially during our budget meetings. Amounts appropriated from reserves is disclosed in public sessions at board meetings, again most commonly during our budget meetings, and is further disclosed in our Budget Notebook mailed to every taxpayer in the District.

See  
Note 3  
Page 14

See  
Note 1  
Page 14

This section goes on to conclude that the District could have possibly reduced the tax levy with these funds. As presented in the table above, the District has significantly reduced the tax levy increase in the 2014/15 and 2015/16 budgets.

Sincerely,

Lyrinda G. Adams  
Superintendent of Schools

## APPENDIX B

### OSC COMMENTS ON THE DISTRICT'S RESPONSE

#### Note 1

Although District voters are notified of the amounts to be appropriated from reserves to fund related expenditures, the budget documents did not include provisions to raise resources for reserve funds. Instead, the Board authorized funding reserves at year-end. As a result, voters are not informed of the Board's intent to increase reserves until after the reserves are funded. The District's financial statements, which disclose reserve activity, are also not available until after the reserves have been funded.

#### Note 2

Although District officials reduced the amount of appropriated fund balance used to fund the budget each year, these amounts were not entirely used because the District overestimated budget appropriations each year.

#### Note 3

As stated in the report, some reserves had balances that were not always in accordance with resolutions because they exceeded the Board-authorized funding levels.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the District's financial condition. To accomplish our objective, we interviewed District officials and employees, tested selected records and examined pertinent documents.

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

- We interviewed District officials and employees to gain an understanding of the budget process and determine reasons for large expenditure variances.
- We reviewed District policies and procedures.
- We reviewed Board minutes and resolutions to gain an understanding of the District's control process and monitoring procedures for the budget.
- We compared budgeted revenues and appropriations to actual revenues and expenditures for 2011-12 through 2013-14.
- We reviewed and analyzed reported fund balance levels in comparison to amounts appropriated in adopted budgets for the fiscal years 2011-12 through 2013-14.
- We restated unassigned fund balance and calculated the unassigned fund balance as a percentage of the next year's budget.
- We reviewed Board resolutions to determine if reserves were funded as authorized.
- We reviewed the District's budget booklet for fiscal years 2011-12 through 2013-14 to determine if reserves budgeted to be appropriated in the budget were documented.
- We reviewed and compared year-to-date expenditures in 2014-15 (July 1, 2014 through March 31, 2015) with the year-to-date expenditures for the same period in 2013-14. Based on year-end expenditures for 2013-14, we projected actual expenditures for 2014-15 for the budget account codes with four of the five largest expenditure variances (hospital, medical and dental, Social Security, teachers' regular salaries and facility operation).
- We reviewed transfers from fund balance into reserves, reserve balances used to fund budgeted appropriations and unused reserve fund balances to determine if they were returned to applicable reserves.
- We reviewed three of the seven reserve funds. We selected our sample by selecting the reserve funds with the highest balances and those which District officials transferred funds to during 2011-12 through 2013-14 to ensure that they were appropriately funded and in compliance with applicable legal requirements.

- We reviewed annual financial statements from 2011-12 through 2013-14, the accompanying management letters prepared by the District’s external auditor and relevant budget reports.

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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