



# Addison Central School District Financial Condition

## Report of Examination

Period Covered:

July 1, 2012 – December 15, 2015

2016M-30



Thomas P. DiNapoli

# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	1
<b>INTRODUCTION</b>	2
Background	2
Objective	2
Scope and Methodology	2
Comments of District Officials and Corrective Action	2
<b>FINANCIAL CONDITION</b>	4
General Fund Budgeting and Fund Balance	5
School Lunch Fund Balance	9
Multiyear Planning	9
Recommendations	10
<b>APPENDIX A</b> Response From District Officials	12
<b>APPENDIX B</b> OSC Comments on the District's Response	15
<b>APPENDIX C</b> Audit Methodology and Standards	17
<b>APPENDIX D</b> How to Obtain Additional Copies of the Report	19
<b>APPENDIX E</b> Local Regional Office Listing	20

# State of New York Office of the State Comptroller

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

June 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 Addison 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 Addison Central School District (District) is located in the Towns of Addison, Cameron, Canisteo, Erwin, Lindley, Rathbone, Thurston, Troupsburg, Tuscarora and Woodhull in Steuben County. The District is governed by the Board of Education (Board), which is composed of seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the District's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the Board's direction.

The District operates three schools with approximately 1,100 students and 246 employees. The District's budgeted general fund appropriations for the 2015-16 fiscal year were \$28.8 million, which were funded primarily with State aid and real property taxes.

## Objective

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

- Did the Board and District officials adequately manage the District's financial condition?

## Scope and Methodology

We examined the District's financial condition for the period July 1, 2012 through December 15, 2015.

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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

## 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 the findings and recommendations in our report. Appendix B includes our comments on the issues raised in the District'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

It is essential that the Board adopt structurally balanced budgets in which recurring revenues finance recurring expenditures and reasonable levels of fund balance are maintained. District officials must ensure that budgets are prepared, adopted and modified in a prudent and transparent manner which accurately depicts the District's financial activity while also using available resources to benefit its taxpayers.

Prudent fiscal management also includes maintaining sufficient balances in reserves to address long-term obligations or planned expenditures. In doing so, District officials should adopt a policy or plan governing the use of reserve funds and ensure that residents are fully informed of all reserve funding and activity. Finally, District officials should develop detailed multiyear plans to allow them to set long-term priorities and work toward specific goals.

The Board and District officials need to improve the budget process to ensure they effectively manage the District's financial condition. During the last three completed fiscal years (2012-13 through 2014-15), the Board and District officials overestimated general fund appropriations by \$7.3 million (9 percent), resulting in combined operating surpluses totaling \$6.4 million.

District officials used the operating surpluses to make interfund transfers totaling approximately \$4 million and increase reserves by \$1.6 million. As a result, four reserves with balances totaling \$2.9 million (48 percent of total reserves) are overfunded and potentially unnecessary. In addition, \$820,000 in appropriated fund balance was not needed to finance operations for the last three completed fiscal years, and compensated absences and accrued liabilities were overstated by \$275,930 as of June 30, 2015. We also believe that the \$285,000 appropriated fund balance for 2015-2016 will not be used.

These practices allowed the District to report year-end unrestricted fund balance at levels that essentially complied with the statutory 4 percent fund balance limit. However, when adding back the unused appropriated fund balance, overstated liabilities and overfunded reserves, the District's recalculated unrestricted fund balance ranged from 16 to 18 percent of the ensuing year's appropriations, significantly exceeding the 4 percent statutory limit. As a result, the District's tax levy was higher than necessary to fund District operations.

In addition, the District's school lunch fund balance exceeded federal regulations that limit the allowable school lunch fund balance to three months' average operating expenditures by almost \$360,000. Lastly, the Board and District officials have not developed a formal written multiyear financial plan. As a result, officials may not be aware of future needs and available revenue streams while working on strategic planning.

## **General Fund Budgeting and Fund Balance**

Budget transparency is important for public participation and accountability and allows residents to provide feedback on the quality and adequacy of services and decisions that affect the District's long-term financial stability. It is essential that the Board prepares budgets based on historical or known trends. In preparing a realistic budget, the Board is responsible for estimating the amounts the District will spend and receive in revenue (e.g., State aid), estimating the amount of fund balance that will be available at the fiscal year-end and balancing the budget by determining the expected real property tax levy. Accurate budget estimates help ensure that the taxes levied are not higher than necessary.

Fund balance, which represents resources remaining from prior fiscal years, can be used to lower property taxes for the ensuing fiscal year. New York State Real Property Tax Law currently limits the amount of fund balance that can be legally retained to 4 percent of the ensuing year's budget. Fund balance in excess of the statutory limit must be used to fund a portion of the next year's appropriations, thereby reducing the tax levy, or to fund legally established reserves. Districts may establish reserves to restrict a reasonable portion of fund balance for a specific purpose, in compliance with statutory directives.

When the Board establishes reserve funds for specific purposes, it is important to develop a plan for funding the reserves, determine how much should be accumulated and determine how and when funds will be used to finance related costs.

In addition, the Board should review the District's reserves at least annually and include provisions to fund and use reserves in budgets that are voted on by taxpayers to help ensure the amounts reserved are necessary and provide transparency to the taxpayers. Funding reserves at greater than reasonable levels contributes to real property tax levies that are higher than necessary because the excessive reserve balances are not being used to fund operations.

We compared the District's appropriations with actual expenditure results for fiscal years 2012-13 through 2014-15 and found that District officials annually overestimated appropriations for a total of \$7.3 million (9 percent) during this time, as shown in Figure 1.

Figure 1: Overestimated Appropriations				
Fiscal Year	Appropriations	Actual Expenditures	Variance	Percentage
2012-13	\$25,287,202	\$23,071,124	\$2,216,078	9%
2013-14	\$26,127,710	\$23,887,636	\$2,240,074	9%
2014-15	\$26,806,385	\$23,988,912	\$2,817,473	11%
<b>Total Variance</b>	<b>\$78,221,297</b>	<b>\$70,947,672</b>	<b>\$7,273,625</b>	<b>9%</b>

The largest portion of the variance, \$3.2 million (44 percent), occurred because District officials annually overestimated health insurance costs ranging from almost \$968,000 to more than \$1.2 million. Officials continued this budgeting practice with the adoption of the 2015-16 fiscal year budget, which we project will again overestimate health insurance costs by more than \$1.1 million.

Overestimating appropriations allowed the District to circumvent the statutory limit on the amount of unrestricted fund balance that could be retained at year-end. For example, by overestimating 2014-15 fiscal year expenditures by \$2.8 million, the District could legally retain an additional \$113,000 (4 percent of the \$2.8 million) in unrestricted fund balance as of June 30, 2014. As a result of overestimating appropriations, the District experienced a cumulative operating surplus totaling \$6.4 million from fiscal years 2012-13 through 2014-15, as indicated in Figure 2.

Figure 2: Unrestricted Fund Balance at Year-End			
	2012-13	2013-14	2014-15
Beginning Fund Balance	\$9,732,239	\$6,444,215	\$6,708,765
Add: Operating Surplus	\$2,070,785	\$1,826,512	\$2,464,695
Less: Interfund Transfers	\$5,358,809	\$1,561,962	\$1,419,701
Ending Fund Balance	\$6,444,215	\$6,708,765	\$7,753,759
Less: Restricted Funds	\$4,785,450	\$5,242,150	\$6,133,287
Less: Appropriated Fund Balance for the Ensuing Year	\$285,000	\$285,000	\$285,000
Less: Assigned Fund Balance	\$324,656	\$109,380	\$195,020
Unrestricted Funds at Year-End	\$1,049,109	\$1,072,235	\$1,140,452
Ensuing Year's Budgeted Appropriations	\$26,227,710	\$27,041,385	\$28,747,063
Unrestricted Funds as a Percentage of Ensuing Year's Budget	4%	4%	4%

Due to these operating surpluses, the Board approved additional interfund transfers totaling approximately \$4 million that were



significantly larger than those amounts budgeted (\$435,000) to reduce unrestricted fund balance to within the 4 percent statutory limit. These transfers were made to the special aid fund totaling \$148,555 and capital project fund totaling \$3.75 million. However, a more transparent and appropriate method would be to estimate overall appropriations more accurately when the budget is first prepared and include specific budgetary provision for the interfund transfers.

Although the Board approved a plan for its reserve funds in March 2015, the plan did not include how these funds would be used or the rationale for the balances to be maintained. The Board also did not include provisions to fund reserves in its annual budgets that were voted on by residents to help ensure the amounts reserved were necessary and provide transparency.

District officials used the operating surpluses to increase reserves by \$1.6 million. As of June 30, 2015, the District's six reserve fund balances totaled approximately \$6.1 million. While the District's adopted budgets included using \$602,000 from the reserves as a funding source, none of this amount was used for reserve-related expenditures. A more transparent and appropriate method of funding reserves would be to include an amount in the budget submitted for voter approval.

We reviewed the District's reserve plan and analyzed the District's reserves as of June 30, 2015 for reasonableness and found four reserves with balances totaling \$2.9 million (48 percent of total reserves) were overfunded and potentially unnecessary. The retirement contribution reserve had a balance of more than \$1.76 million, which was more than five times the average annual expenditures over the last three years.<sup>1</sup>

This reserve was intended to be used to eliminate sharp increases in retirement contributions and subsidize appropriations during difficult budget years. However, the District's plan specified that this reserve was to be maintained to fund five years of retirement costs. In addition, District officials essentially funded retirement expenditures through the annual tax levy.

Although the liability reserve had a balance of \$439,815, the District had only one case in litigation, which the District's attorney predicted would be dismissed. The repair reserve had a balance of \$433,279 and has not been used in the past three years. Furthermore, the District's reserve plan specified that this reserve was unnecessary because the District would create a proposition to use the repair reserve on

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<sup>1</sup> The District's average annual New York State and Local Retirement System expenditures over the last three years were \$322,000.

the District's next capital project,<sup>2</sup> which was in the planning stage. Finally, the unemployment reserve had a balance of \$250,667, which is more than 18 times the average annual expenditures over the past three years.<sup>3</sup>

Finally, because the District incurred operating surpluses, \$820,000 of fund balance that District officials appropriated for the last three completed fiscal years,<sup>4</sup> was not needed to finance operations, and it does not appear that the appropriated fund balance of \$285,000 for 2015-16 will be used. The District's practice of consistently appropriating fund balance that is not needed is, in effect, a reservation of fund balance that is not provided for by statute and a circumvention of the statutory limit imposed on the level of unrestricted fund balance and diminishes financial transparency to the taxpayers.

Further, District officials did not accurately calculate and report the District's liability for compensated absences and accrued liabilities, which resulted in fund balance being understated by \$275,930 as of June 30, 2015. When unused appropriated fund balance, overstated liabilities and overfunded reserves (excess restricted funds) are added back, the District's recalculated fund balance exceeded the statutory limit, ranging from 16 to 18 percent of the ensuing year's appropriations, as indicated in Figure 3.

<b>Figure 3: Unused Fund Balance</b>			
	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
Total Unrestricted Funds at Year-End	\$1,049,109	\$1,072,235	\$1,140,452
Add: Appropriated Fund Balance Not Used To Fund Ensuing Year's Budget	\$285,000	\$285,000	\$285,000 <sup>a</sup>
Add: Overstated Liability	\$187,037	\$215,741	\$275,930
Total Recalculated Unrestricted Funds	\$1,521,146	\$1,572,976	\$1,701,382
Add: Excess Reserves (Restricted Funds)	\$3,193,838	\$3,197,993	\$2,887,291
Total Excessive Fund Balance	\$4,714,984	\$4,770,969	\$4,588,673
Excessive Fund Balance as a Percentage of Ensuing Year's Budget	18.0 %	17.6%	16.0%

<sup>a</sup> We project that the District will not use this amount of appropriated fund balance in 2015-16.

Because District officials significantly overestimated appropriations, it appeared that the District needed to raise taxes and use fund balance to close projected budget gaps. As a result, District officials

<sup>2</sup> In general, all or any part of a repair reserve fund may be transferred to a reserve fund established pursuant to Section 3651 of the Education Law with voter approval.

<sup>3</sup> The District's average annual unemployment expenditures over the last three years were \$13,373.

<sup>4</sup> District Officials appropriated \$250,000 in the fiscal year 2011-12 to be used in 2012-13.

unnecessarily increased the tax levy almost 6 percent from \$6.7 million in 2012-13 to \$7 million in 2015-16.

Based on the 2015-16 adopted budget, the District budgeted similarly to previous years and we project will not use the \$285,000 it appropriated in fund balance. Therefore, the District's recalculated fund balance will likely continue to exceed the statutory limit. By maintaining excessive fund balance and not using the appropriated funds, District officials levied more taxes than necessary to sustain District operations.

### **School Lunch Fund Balance**

According to New York State Education Department (SED) guidelines, the school lunch fund's budgeted appropriations must balance with its estimated revenues. In addition, this fund may be charged for direct program costs, such as food purchases, food service workers salaries and benefits and, to the extent funds are available, indirect costs such as utilities and custodial and administrative expenditures.<sup>5</sup>

Federal regulations limit the allowable school lunch fund balance to three months' average operating expenditures. The District's three months' average operating expenditures for the 2014-15 fiscal year were \$172,242.

District officials overestimated appropriations in the last three fiscal years, underestimated revenues in two of the years and did not recover general fund indirect costs, resulting in operating surpluses each year totaling \$44,396 for the last three completed fiscal years. As a result, the total fund balance increased from approximately \$485,651 to \$530,047, or 77 percent of the 2015-16 appropriations, which is in excess of the federal limit by \$357,805 (208 percent of the federal limit).

Although the District's independent auditors identified the excess balance in their last three annual audit reports, District officials failed to take corrective action. Officials told us that they planned to purchase equipment totaling approximately \$45,000 from these excess funds. However, even if District officials make these purchases, the fund balance will not be reduced to the allowable limit.

### **Multiyear Planning**

It is important for school district officials to develop comprehensive multiyear financial and capital plans to estimate the future costs of ongoing services and capital needs. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period and allow school district officials to identify developing

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<sup>5</sup> The indirect cost allocation must be approved by SED.

revenue and expenditure trends, set long-term priorities and goals and avoid large fluctuations in tax rates.

Multiyear plans also allow school district officials to assess the effect and merits of alternative approaches to address financial issues, such as the use of unrestricted fund balance to finance operations and the accumulation of money in reserve funds. Long-term financial plans work in conjunction with Board-adopted policies and procedures to provide necessary guidance to employees on the financial priorities and goals set by the Board. Also, the Board must monitor and update long-term financial plans on an ongoing basis to ensure that its decisions are guided by the most accurate information available.

The Board and District officials have not developed a formal, written multiyear financial plan. The failure to develop and adopt an adequate multiyear plan which includes specific estimates for revenues, expenditures, reserves, the use of debt service funds and fund balance inhibits officials' ability to effectively manage District finances and address the future needs.

Additionally, by not developing effective and comprehensive long-term plans, the District risks not being adequately prepared for adverse future economic or environmental changes which could potentially overburden taxpayers. The development of adequate multiyear plans is increasingly important due to legislative changes in recent years, which limit school districts' ability to finance operations through tax increases. Consequently, District officials may not remain aware of future needs and available revenue streams while working on strategic planning.

## Recommendations

The Board and District officials should:

1. Adopt budgets that include the District's actual needs, based on available current information and historical data.
2. Discontinue the practice of adopting budgets that result in the appropriation of fund balance and reserve funds that will not be used.
3. Amend their reserve plan to clearly communicate to District residents the purpose and intent for establishing each reserve fund, the manner in which the Board will fund and maintain each reserve fund and the optimal or targeted funding levels and applicable rationale and conditions under which each fund's assets will be used or replenished.

4. Review all reserves and determine if the amounts reserved are necessary, reasonable and in compliance with statutory requirements. To the extent that they are not, transfers should be made to unrestricted fund balance, where allowed by law, or to other reserves established and maintained in compliance with statutory directives.
5. Use the guidance provided by the Office of the State Comptroller (OSC) to calculate the amount of the District's compensated absences liability and classify and report short- and long-term portions accordingly.
6. Develop a plan to reduce excess school lunch fund balance to adhere to federal regulations.
7. Develop a multiyear financial plan that includes information related to anticipated funding and use of reserves and the appropriation of fund balance.
8. Use the excess fund balance to benefit taxpayers. Such uses could include lowering the tax levy, paying down debt or paying for one time expenditures.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



# ADDISON CENTRAL SCHOOL DISTRICT

7 CLEVELAND DRIVE, SUITE 101  
ADDISON, NEW YORK 14801-1398  
PHONE: (607) 359-2244  
FAX: (607) 359-2246

Joseph DioGuardi  
Superintendent

April 25, 2016

Edward V. Grant Jr., Chief Examiner  
The Powers Building  
16 W. Main Street, Suite 522  
Rochester, New York 14614

Dear Mr. Grant:

On behalf of the Board of Education and administration, we appreciate the opportunity to respond to the Addison Central School District Report of Examination for the period of July 1, 2012 through December 15, 2015.

The Addison Central School District budgets conservatively to ensure that unanticipated expenditures do not result in mid-year budget cuts, which would have a devastating impact on students. This practice has allowed the district to weather mid-year increases in health insurance premiums, state aid holdbacks, and our limited ability to raise revenue locally. However, conservative budgeting can also result in budget surpluses at year-end. The Board of Education, along with the administration, reviews any budget surpluses and determines the best use of these surpluses, always considering the long-term fiscal health and stability of the school district. Our financial management practices have been endorsed by Moody's Rating Agency which increased Addison's bond rating to A1 noting: Addison Central School District credit position is favorable. The credit drivers include a very healthy financial position, and a modest socioeconomic profile and tax base. The financial position of the district is robust and is a notable strength relative to the assigned rating of A1.

See  
Note 1  
Page 15

Without conservative budgeting, Addison Central School District would have had to lay off staff and reduce programs to such a level that the district would not have been able to provide an acceptable level of quality educational programming to its students and community.

See  
Note 3  
Page 15

The Board of Education ensures adoption of accurate budgets on an annual basis. However, both revenues and expenditures can be unpredictable and fluctuate greatly in the 18-month period of time between budget creation and final expenditures of that budget. The district has no way to know what competitive grants we may receive, nor how our Title grants may be allocated. Moreover, prudent budgeting requires the district be able to absorb unanticipated expenses as we cannot increase our budget for unanticipated expenses. (i.e. health insurance increases)

See  
Note 4  
Page 15

When the district receives unanticipated increases in grant funding or an unanticipated decline in expense, fund balance is generated. As your report points out, when these events have happened the District has paid down principal on outstanding debt, and/or transferred fund balance into legally permissible reserves. The district's ability to pay down principal on outstanding debt has resulted in building aid exceeding debt service payments thereby allowing building aid to help support instructional program for the next 15 years. It should also be pointed out, in this era of the property tax cap, the gap

See  
Note 5  
Page 15

elimination adjustment, and Foundation Aid not being awarded as prescribed by law, that Addison Central School has not had to eliminate programs, which is a goal of both the Board of Education and the Administration.

The Board of Education reviews reserve balances monthly while also ensuring balances align with the established reserve plan, and are funded at reasonable levels. During the 2014-2015 school year, the Board of Education authorized the liquidation of its insurance reserve and also partially liquidated the unemployment reserve. The Board of Education believes the current funding level and methodology of all reserves is appropriate, and will continue to monitor their balances. It should be noted that appropriated reserves used to balance the budgets during the review period were brought to the Board of Education at the time of budget adoption and also to the taxpayers at the annual budget presentation meeting. These appropriated reserves were also included in the budget newsletters sent to all District residents.

See  
Note 6  
Page 15

See  
Note 7  
Page 16

The Addison Central School district would like to thank the New York State Office of State Comptroller for the high degree of professionalism and collegiality displayed during the audit. Our District has a culture of continuous improvement, and this audit will help us in that endeavor.

Sincerely,

William Peoples, Board President

Joseph Dioguardi, Superintendent of Schools



## APPENDIX B

### OSC COMMENTS ON THE DISTRICT'S RESPONSE

#### Note 1

While a conservative approach to budgeting has its merits, it must be re-evaluated in light of surpluses experienced over the last three fiscal years totaling \$6.4 million. Furthermore, the District's excessive fund balance is more than sufficient to cover unanticipated expenditures.

#### Note 2

The purpose of a bond rating service is to analyze the risk posed to investors of an entity's indebtedness. They are not concerned if excess funds of District residents are being accumulated. Our audit analyzed the District's finances on behalf of the residents.

#### Note 3

The District's budgeting practices provided amounts that created an excessive and growing general fund balance. A conservative budget or a cushion in fund balance can provide for unforeseen events. However, excessive fund balance and a conservative budget results in unnecessary taxes.

#### Note 4

The accuracy of District budget estimates could be improved by making better use of historical data and improved multiyear planning. Fund balance allows the District to manage unexpected expenditures and shortfalls in estimated revenues. During our audit period, District officials significantly overestimated health insurance costs each year and did so again with the adoption of the 2015-16 budget.

#### Note 5

The District's excessive general fund balance was generated from operating surpluses, which occurred because District officials overestimated specific appropriations, particularly health insurance. Special aid fund grant-related revenues and expenditures did not contribute to excessive general fund balance. To promote transparency in the budget process, 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 instead of funding reserves with excess fund balance at year-end.

#### Note 6

Although the Board approved a plan for its reserve funds in March, 2015, the plan did not include how these funds would be used or the rationale for the balances to be maintained. As indicated in our report, four reserves were overfunded and potentially unnecessary.

Note 7

While the District's adopted budgets included using reserves as a funding source, these reserved funds were not actually used to pay for reserve related expenditures.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

To accomplish the objective of our audit, we performed the following procedures:

- We interviewed District officials to gain an understanding of the District’s budgeting process.
- We reviewed the results of operations and analyzed changes in fund balance for the general fund and school lunch fund for the period July 1, 2012 through June 30, 2015. To gain additional background information and for perspective, we also reviewed financial data for reserves and capital projects before our audit period.
- We compared the adopted budgets to the actual operating results for the period July 1, 2012 through June 30, 2015 to determine if the budget assumptions were reasonable. We also reviewed the general fund 2015-16 budget and health insurance account ledger to determine if the District overestimated health insurance expenditures in the current year.
- We analyzed the debt service fund balance and activity to determine amounts that accounted for the balance in this fund and whether the District was using this fund to make debt payments for the audit period.
- We reviewed the independent auditor’s management letters to District officials from the last three completed financial audits, corrective action taken by the District and support for any corrective action that was planned in the 2015-16 fiscal year.
- We reviewed the appropriation of the District’s reserves and fund balance for the period July 1, 2012 through June 30, 2015.
- We reviewed Board minutes, resolutions and other documentation to determine if reserve funds were created, funded and expended properly; if liabilities were properly recorded; and if transfers were appropriate.
- We obtained representations from the District’s attorney to determine if the District was involved in any litigation, the likelihood of an unfavorable outcome and an estimate, if one could be made, of the amount or range of potential expected loss.
- We tested the reliability of the accounting records by reviewing bank statement reconciliations and Board resolutions and compared them to the annual financial reports filed with OSC and the independent auditor’s certified financial statements.
- We reviewed general fund “other” assets and liabilities as of June 30, 2015 to determine if they were properly accrued.
- We obtained and reviewed the District’s calculation for compensated absences for accuracy and to determine the long-term liability. We also obtained and reviewed supporting documentation

for the short-term liability for compensated absences to determine the District's short-term liability.

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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