



# Dundee Central School District Financial Condition

## Report of Examination

Period Covered:

July 1, 2008 — April 11, 2012

2012M-108



Thomas P. DiNapoli

# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	2
<b>INTRODUCTION</b>	3
Background	3
Objective	3
Scope and Methodology	3
Comments of District Officials and Corrective Action	3
<b>FINANCIAL CONDITION</b>	5
Budgeting and Use of Fund Balance	5
Reserves	8
Recommendations	11
<b>APPENDIX A</b> Response From District Officials	12
<b>APPENDIX B</b> OSC Comments on the District's Response	16
<b>APPENDIX C</b> Audit Methodology and Standards	17
<b>APPENDIX D</b> How to Obtain Additional Copies of the Report	18
<b>APPENDIX E</b> Local Regional Office Listing	19

# State of New York Office of the State Comptroller

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

November 2012

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 Dundee 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 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 Dundee Central School District (District) is located in Yates County and has an enrollment of 760 students for the 2011-12 fiscal year. The District is governed by the Board of Education (Board) which comprises 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 (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for its day-to-day management under the direction of the Board. The School Business Official (Business Official) is responsible for the District's finances, accounting records, and financial reports.

The District has one educational building and a bus garage. During the 2010-11 fiscal year, the District had operating expenditures of approximately \$11 million, funded primarily with State aid and real property taxes. The District's budgeted expenditures for the 2011-12 fiscal year were about \$14 million.

## Objective

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

- Has the District correctly developed budget estimates and have reserves been established, funded, and maintained in accordance with statutory requirements?

## Scope and Methodology

We reviewed the District's financial condition for the period July 1, 2008 to April 11, 2012 by analyzing revenue and expenditure trends.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report.

## Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials disagreed with some of our findings and indicated they will take limited corrective action. Appendix B contains our comments on issues raised in the District's response.

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 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

The responsibility for accurate and effective financial planning rests with the Board, the Superintendent, and the Business Official. District officials must ensure that budgets are prepared, adopted, and modified in a prudent manner, accurately depicting 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.

Over the last three years, District officials have consistently overestimated expenses and increased the tax levy by 8 percent. These budgeting practices generated \$4.5 million in operating surpluses, which caused the accumulated fund balance to exceed the statutory maximum of 4 percent of the ensuing year's budget<sup>1</sup> in the first two years reviewed. To reduce the fund balance and stay within the 4 percent limit, District officials transferred moneys to the District's reserves during the 2010-11 fiscal year, causing them to be overfunded by \$3.9 million.

### **Budgeting and Use of Fund Balance**

The Board is responsible for preparing and presenting the District budget to the public for vote. In preparing the budget, the Board must estimate what the District will receive in revenue (e.g., State aid), how much fund balance will be available at fiscal year-end (some or all of which may be used to fund the ensuing year's appropriations), and, to balance the budget, what the expected tax levy will be. Accurate estimates help ensure that the levy of real property taxes is not greater than necessary.

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 used to lower property taxes for the ensuing fiscal year. A district may retain a portion of fund balance, referred to

<sup>1</sup> The Real Property Tax Law statutory limit of unappropriated, unreserved fund balance (called "unexpended surplus funds" for fiscal years ending June 30, 2011 and beyond) increased from 3 percent of the 2007-08 fiscal year's budget to 4 percent of the 2008-09 fiscal year's budget and years thereafter.

as unexpended surplus funds,<sup>2</sup> within the limits established by Real Property Tax Law. Districts may also establish reserves to restrict a portion of fund balance for a specific purpose, also in compliance with statutory directives. It is the Board's responsibility to continually monitor the need for all established reserves to ensure that the best interests of the taxpayers are being met. Surplus funds must not be transferred to reserve funds beyond the amount that is necessary to address long-term obligations or planned expenditures.

District officials have routinely overstated appropriations in their budgets and then used the operating surplus to fund reserves instead of using it to reduce taxes. For the three fiscal years ending June 30, 2011, appropriations were overstated by a total of \$7 million. The majority of these overestimations were for instructional and employee benefits (\$5.2 million).

These budgeting practices made it appear that the District needed to both raise taxes and use unexpended surplus funds to close projected budget gaps, when in reality the District's budget resulted in operating surpluses totaling \$4.5 million over the last three years (see Table 1.) During our audit period, the Board increased the tax levy by 8 percent and appropriated \$1.6 million in fund balance. Because of the operating surpluses, none of the appropriated fund balance was used to cover expenditures. As a result, unexpended surplus funds exceeded the statutory limit of 4 percent for 2008-09 (at 8 percent of the ensuing year's appropriations) and 2009-10 (at 14 percent of the ensuing year's appropriations).

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<sup>2</sup> The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, 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).

<b>Table 1</b>			
<b>General Fund Operating Results, Fund Balance, and Tax Levy</b>			
	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
Beginning Fund Balance	\$6,784,757	\$7,629,856	\$9,079,157
Revenues	\$13,282,811	\$13,559,558	\$13,219,462
Expenditures	\$12,437,712	\$12,110,257	\$10,998,471
<b>Operating Surplus</b>	<b>\$845,099</b>	<b>\$1,449,301</b>	<b>\$2,220,991</b>
Total Year-End Fund Balance	\$7,629,856	\$9,079,157	\$11,300,148
Less: Restricted Fund Balance	\$6,111,328	\$6,485,573	\$9,264,438
Less: Nonspendables <sup>a</sup>			\$997,838
Less: Appropriated Unexpended Surplus <sup>b</sup>	\$400,000	\$675,700	\$537,755
<b>Unexpended Surplus Funds<sup>c</sup></b>	<b>\$1,118,528</b>	<b>\$1,917,884</b>	<b>\$500,117</b>
Unexpended Surplus as % of Ensuing Year Appropriations <sup>d</sup>	8%	14%	4%
Tax Levy	\$4,270,786	\$4,412,180	\$4,524,456
<sup>a</sup> Assets that cannot be spent in the current period, either because of their form or because they must be maintained intact, such as prepaid items, inventories, long-term portions of loans receivable, financial assets held for resale, and principal of endowments <sup>b</sup> Prior to June 30, 2011, referred to as “unreserved appropriated” <sup>c</sup> Prior to June 30, 2011, referred to as “unreserved unappropriated” <sup>d</sup> Budgeted appropriations were \$13,808,958 for the 2009-10 fiscal year, \$13,848,854 for 2010-11, and \$13,622,927 for 2011-12.			

During the 2010-11 fiscal year, District officials reduced fund balance to the statutory limit by increasing reserves, but these reserves were already overfunded (see “Reserves” below). The practice of consistently appropriating unexpended surplus funds that are not needed to finance operations circumvents the statutory limit for unexpended surplus funds that the District is allowed to retain at year end.

For the 2011-12 fiscal year, the District initially budgeted a 3 percent increase in the real property tax levy but eliminated the increase for the actual tax levy by appropriating additional fund balance (\$137,755). This action reduced the unexpended surplus funds to the maximum amount (4 percent of the ensuing year’s appropriations) allowed by law. Although appropriating additional surplus to reduce taxes rather than provide additional resources for reserves is a positive step based on current fiscal year budget estimates, the District will likely generate an operating surplus for 2011-12 similar to that of 2010-11.



This pattern has continued, based on our review of the District’s proposed 2012-13 budget adopted by the Board which includes appropriations of \$14.4 million, estimated revenues of \$13.8 million (including a tax levy of \$4.7 million), transfers from reserve funds of only \$267,185, and \$350,000 in appropriated unexpended surplus funds. Because of these ongoing budgetary practices, significant taxpayer moneys are being withheld from use and the taxpayer burden is greater than necessary.

## Reserves

Reserves may be established by the Board in accordance with applicable laws. Moneys set aside in reserves must be used only in compliance with statutory provisions which determine how reserves are established and how they may be funded, expended, and discontinued. Generally, school districts are not limited as to how much money can be held in reserves. However, reserve balances must be reasonable. 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. The Board is responsible for developing a formal plan for the use of its reserves, including how and when disbursements should be made, and for ensuring that appropriate documentation is maintained to account for and monitor reserve activity and balances.

As of June 30, 2011, the District had nine reserves in the general fund totaling approximately \$9.2 million. We analyzed these reserves for reasonableness and adherence to statutory requirements, and found the capital reserve, tax certiorari reserve, and employee benefit accrued liability reserve to be reasonable. However, the reserves for retirement, unemployment insurance, repair, insurance, liability, and debt service, totaling almost \$3.9 million, were in excess of the amounts required for their stated purposes and were not supported by a plan or other documentation validating the amount retained. Table 2 shows the balances in these reserves at June 30, 2011.

	<b>Balance at June 30, 2011</b>	<b>Total Expended July 1, 2008 – June 30, 2011</b>
Retirement	\$1,000,000	\$0
Unemployment Insurance	\$792,620	\$72,924
Repair	\$686,779	\$13,221
Insurance	\$533,000	\$0
Liability	\$471,505	\$0
Debt Service	\$410,661	\$0
<b>Total</b>	<b>\$3,894,565</b>	<b>\$86,145</b>

Further, with the exception of the capital reserve, District officials could not provide documentation of an adopted Board resolution<sup>3</sup> or written policy that defines the rationale for establishing the other eight reserve funds, the objectives for each reserve established, the optimal or targeted funding levels, and the conditions under which the funds' assets will be used or replenished. This lack of planning suggests that District officials maintained the significant reserve balances in order to reduce the District's unassigned fund balance to the 4 percent statutory maximum and not on the basis of any analysis and identification of future financial needs.

Retirement Reserve — By law, this reserve can only be used to pay benefits for employees covered by the New York State and Local Retirement System. The District cannot include the cost of financing contributions for employees covered by the New York State Teachers' Retirement System. This reserve was originally funded in the 2008-09 fiscal year with \$250,000 and has increased to \$1 million as of June 30, 2011. No moneys have been expended from the reserve since it has been funded. Instead, the Board budgeted for retirement costs in the general fund and levied taxes to fund them. Although the 2011-12 budget was amended to include \$41,543 from this reserve as a funding source, the Business Official stated it will not be used, and the proposed 2012-13 budget did not include any funding from this reserve. By maintaining a balance in this reserve that is almost eight times the average annual expenditures, while retirement costs have in fact been paid from general fund appropriations, District officials are not using these funds in a prudent manner.

Unemployment Insurance Reserve — This reserve is allowed for reimbursing the State Unemployment Insurance Fund (SUIF) for payments made to claimants where the school district has elected to use the "benefit reimbursement" method based on actual unemployment claims. If, at the end of any fiscal year, the moneys in this reserve exceed amounts required to be paid into the SUIF, plus any additional amounts required to pay all pending claims, the Board may (within 60 days of the close of the fiscal year) elect to transfer "excess" amounts to certain other reserve funds or apply the excess to the budget appropriation of the next succeeding fiscal year.

As of June 30, 2011, the District has accumulated \$792,620 in this reserve. The District did not use this reserve as a funding source during the 2011-12 fiscal year, but included \$22,185 from it in the adopted 2012-13 budget. District expenditures to the SUIF were approximately \$73,000<sup>4</sup> for the three-year period July 1, 2008 through

<sup>3</sup> If a debt service reserve is statutorily required, no board action is necessary to establish it.

<sup>4</sup> The NYS UI Fund expenditures were \$7,617 for the 2008-09 fiscal year, \$14,179 for the 2009-10 fiscal year, and \$51,128 for the 2010-11 fiscal year.

June 30, 2011, or an average of about \$24,000 a year. A balance that is over 32 times the average annual expenditures of the last three years is clearly excessive. Accordingly, we question why the Board is continuing to hold a substantial balance in this reserve.

Repair Reserve — The District established this reserve in August 2010 under General Municipal Law, in the amount of \$350,000, to cover the future repair costs of the bus garage until the District builds a new one. Although the District did use \$13,221 from this reserve in 2010-11, it increased the balance of this reserve to \$686,779 as of June 30, 2011. The District could not provide documentation to justify this amount, and appropriated less than \$5,000 annually for garage building repairs from general operating funds in the 2011-12 and 2012-13 budgets.

Insurance Reserve — This reserve is intended to pay certain uninsured losses, claims, actions, or judgments for which the District is authorized or required to purchase or maintain insurance, with a number of exceptions.<sup>5</sup> The District has maintained an insurance reserve and liability reserve (see below) to pay for any judgments from a pending lawsuit against the District. During the 2010-11 fiscal year, the District increased this reserve \$500,000 to \$533,000 as of June 30, 2011. No moneys have been expended from this reserve in the last three years, nor could District officials provide any documentation of legal advice or recommendation about the outcome of this suit or an estimate of monetary value.

Liability Reserve — The District established this reserve under Education Law<sup>6</sup> to cover property loss and liability claims. As of June 30, 2011, the amount in this reserve was \$471,505. According to the Business Official, the District established this reserve to provide a safety net for pending litigation brought against the District. However, no moneys have been expended from this reserve since its establishment.

Debt Service Reserve — Statute requires that unexpended debt proceeds and interest earned on it must be restricted and used to pay debt service on that debt issue or for capital expenditures related to the debt authorization. The District has a balance of \$410,661 in its debt service reserve. However, the related projects are closed, without any further payments due. Districts are not allowed to establish a debt service reserve for any purpose other than those mandated by statute; therefore, this reserve is inappropriate and these moneys are being improperly retained.

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<sup>5</sup> Per GML Section 6-n

<sup>6</sup> This reserve was originally funded in 1998.

By maintaining excessive and/or unnecessary reserves – combined with ongoing budgeting practices that generate repeated surpluses – the Board and District officials have withheld significant funds from productive use, levied unnecessarily high taxes, and compromised the transparency of District finances to the taxpayers.

## **Recommendations**

1. The Board and District officials should develop expenditures estimates that are realistic and based upon all information available at the time the budget is developed.
2. District officials should develop a plan to use the surplus fund balance identified in this report in a manner that benefits District taxpayers, and provide appropriate transparency through the budget process with public disclosure. Such uses could include, but are not limited to, reducing District property taxes or funding one-time expenditures.
3. The Board should 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 unappropriated fund balance, where allowed by law, or other reserves established and maintained in compliance with statutory directives.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



October 4, 2012

Mr. Edward V. Grant, Jr.  
Chief Examiner Division of Local Government and School Accountability  
Office of State Comptroller  
The Powers Building, 16 Main Street, Suite 522  
Rochester, NY 14614

Dear Mr. Grant:

Please accept this letter as the official response from the Dundee Central School District regarding the Draft Audit Report for the period covering July 1, 2008-April 11, 2012 conducted by your office. On behalf of the Board of Education and the District's administration, we would like to thank the local field staff of the Comptroller's office. As we indicated in our entry meeting in the Fall of 2011, the District welcomes constructive feedback provided by the Comptroller's office and appreciates the opportunity to strengthen our current practices as a result of the reflection on that feedback. The exit interview held on October 2, 2012 held no surprises.

The District is pleased that the draft does not suggest any malfeasance or legal impropriety with respect to our general business operations. We work closely with our outside independent financial advisors to review our management practices and oversight on a regular basis. To the extent that the Comptroller's audit represents an examination of the District's business opportunities and statutory and regulatory compliance, we have carefully reviewed the findings and recommendations and will take appropriate corrective action in certain areas. These will be outlined in our Corrective Action Plan.

However, the audit report contains a number of conclusions and broad statements that we believe reflect subjective opinions of the Comptroller's office with respect to the District's financial management specifically as they relate to financial planning, reserve funds, and fund balance management. We have carefully considered and appreciate your perspective. However, with that being said, the elected Board of Education and the District's administration firmly believe that our overall approach to financial management is consistent with our legal authority; and is consistent with our fiduciary responsibility to our taxpayers.

See  
Note 1  
Page 16

We are concerned that the overall tone of the audit report seems inconsistent with the philosophy set forth by the Comptroller's office itself in the guidance document *Local Government Management Guide — Reserves*. That document states:

In our personal lives, saving or putting money aside to finance future needs is a common practice. Unquestionably, strong arguments can be advanced for accumulating

See  
Note 2  
Page 16

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funds. The disputable policy "live for today and let tomorrow take care of itself" can easily be refuted with many savings slogans such as "prepare for a rainy day".

**These practices are equally important for New York's local governments. Legally established reserves can provide many benefits to municipalities and their citizens.**

Available moneys can be set aside to finance all or part of planned projects, thereby reducing the need to issue costly debt. Reserves can provide a degree of financial stability. In certain economic times, reserve funds may give managers options other than cutting services or raising taxes. In good times, moneys not needed for current purposes can often be set aside for future benefit.

The guidance goes on to state the following:

**Municipalities, like any other entity, need to accumulate funds for future contingencies.** However, if the adopted budget is on the mark total revenues plus appropriated fund balance would equal total expenditures with a zero fund balance remaining at the end of the fiscal year, leaving nothing to accumulate. In accordance with some statutes, many municipalities may include in their budgets an amount for estimated unappropriated, unreserved fund balances for each fund. Such estimate may not exceed a reasonable amount, consistent with prudent budgeting practices, necessary to ensure the orderly operation of the government (see Town Law § 107[1][b], Village Law § 5-506 [1][c], and County Law § 355 [1][g]).

**Fortunately, municipalities are not precluded from setting aside and accumulating funds.** This is accomplished by establishing reserve funds, which provide a means for raising money today, investing it and spending the money and earnings in the future. The decision to establish reserve funds, other than "mandatory" reserves, is left up to the governing board of each municipality. The purpose of the chapter is to offer a reference document on legally authorized reserve funds. Hopefully, it will serve to acquaint officials with legal requirements so that the establishment and use of reserve funds comply with the law.

It is with these principles in mind that we have considered and now respond to the three recommendations included in the audit.

The budget is the most thoroughly reviewed and most important financial document in the District. The report suggests that the District be more realistic when estimating fund balance and appropriations when preparing its budget, which would conceivably lower taxes.

The District believes in conservatively estimating revenues and expenditures which stabilizes taxes. We are of the opinion that our actions to reserve, appropriate or retain (up to the statutory limit) portions of this fund balance have been in a manner that best serves the long-term interests of the taxpayers and students. In addition, the difficulty and uncertainty of estimating special education costs dictates the need for a more conservative approach. As the Comptroller's office is well aware, estimates of expenditures are based on facts known at the time of budget planning and adoption. Operating surpluses resulting from overestimating appropriations due to unplanned grant resources and uncertainty of fringe benefit costs has contributed to operating surpluses that have resulted in the total year-fund balance.

See  
Note 3  
Page 16

The Comptroller's report also pointed out the district should develop a plan to use the surplus fund balance in a manner that benefits the District's taxpayers, such as reducing District property taxes or funding one-time expenditures. What the report failed to mention was that the school district maintained a 0% tax levy increase for the fiscal years 2011-2012 and again in 2012-2013. In addition, the school district has implemented a multiyear financial plan to assist in making decisions that will keep the district financially solvent and healthy. This is no small task for high needs rural school districts like Dundee. However, the financial health of the district has positioned us to make the best possible choices for our students and continue to be financially responsible to our taxpayers. However, the multiyear plan does forecast the depletion of Debt Service, Unemployment, Capital (bus) reserves by fiscal year 2015.

See  
Note 4  
Page 16

The school district received an unsatisfactory rating on its 2011 building condition survey, necessitating significant capital improvements in the near future on the school bus garage. This is a 1938 building. As a result, the District is planning to utilize the existing repair reserve and capital reserve to address the identified health and safety concerns upon voter approval.

See  
Note 5  
Page 16

The Board of Education is provided with regular financial reports on financial results and fund balance activities. A financial dashboard has been developed as a means of providing this information in a concise format. When conditions warrant (subject to legal requirements), the board adjusts reserve funds to reasonable levels or liquidates and discontinues a reserve that is no longer needed or whose purpose has been achieved.

See  
Note 6  
Page 16

In conclusion, the Dundee Central School District appreciates the feedback provided by the Comptroller's office and views this as an opportunity to improve our financial practices. The Board and the administration are committed to taking appropriate action to correct, clarify and/or strengthen our operating procedures and to fully comply with State regulations. However, the District maintains that its primary financial objective is maximizing the educational opportunities for our students while minimizing the cost of delivering a well rounded education to our students.

The District had already begun to implement recommendations specified in the audit draft. We will work to complete the corrective action plan within the given timeline and forward it to appropriate parties.

Sincerely,

Kathy A. Ring  
Superintendent

*KAR/mac*



## APPENDIX B

### OSC COMMENTS ON THE DISTRICT'S RESPONSE

#### Note 1

The Board has a responsibility to ensure the budget accurately estimates revenues and expenditures. 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 exacted from District taxpayers. Our audit found that District officials have not fulfilled this fiduciary responsibility.

#### Note 2

The District's response cites an out-of-date version of OSC's *Local Government Management Guide – Reserves*. The publication was updated in January 2010 to provide additional clarification and states: "The practice of planning ahead and systematically saving for capital acquisitions and other contingencies is considered prudent management. . . An important concept to remember is that a reserve fund should be established with a clear intent or plan in mind regarding the future purpose, use and, when appropriate, replenishment of funds from the reserve. Reserve funds should not be merely a 'parking lot' for excess cash or fund balance." Rather than being prudent management, the District's budgetary practices are an example of accumulating excess cash at the expense of taxpayers.

#### Note 3

While a conservative approach to budgeting has its merits, it must be reevaluated in light of repeated surpluses that have resulted in reserves exceeding documented needs and risks.

#### Note 4

District officials provided us with additional information after the exit discussion to substantiate the 0 percent increase in the 2011-12 levy. We have modified the report accordingly.

#### Note 5

The District established the repair reserve in August 2010 in the amount of \$350,000, prior to the 2011 building survey cited in the District's response, and to date has accumulated approximately \$687,000 in this reserve without documenting the estimated cost or voter approval. An appropriation to a repair reserve fund is not an ordinary contingent expense and, therefore, voter approval is required to fund a repair reserve. While an aging building may require repairs or improvements, residents have the right to authorize this accumulation of their moneys.

#### Note 6

The Board has not developed a written policy that communicates to taxpayers why the money is being set aside, the Board's financial objectives for the reserves, optimal funding levels, and conditions under which the assets will be utilized. With the exception of the capital reserve, reserves were financed in accordance with resolutions that stated the action was based on the need to reduce the unappropriated, unreserved fund balance to the statutory requirement of 4 percent. The reasonable needs of the reserves were not noted.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to determine if the Board and District officials were providing effective financial oversight of cash disbursements, payroll and personal services, management of budget estimates, and reserve balances. To accomplish our objectives, we interviewed District officials and District staff members when possible, and emailed individuals who were not readily available. We examined records and documents for the period July 1, 2008 to April 11, 2012. We determined the major revenues and expenditures for the three-year period July 1, 2008 to June 30, 2011, and analyzed trends to determine the factors leading to the differences between budgeted and actual revenues and expenditures and reserve accounts. Our testing included the following steps:

- We reviewed Board minutes, District policies, adopted budgets for the 2008-09 through 2011-12 fiscal years, audited financial statements, and budget status reports. We analyzed budget items with significant budget-to-actual variances.
- We examined tax levy increases from 2008-09 through 2011-12. We reviewed District reserve accounts and supporting documentation to determine the appropriateness of funding levels and if proper procedures were followed for establishing those reserves.
- We inquired as to the availability of financial information, such as budgets, and reviewed the last five years of financial information submitted to the Office of the State Comptroller.

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 D

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**AND SCHOOL ACCOUNTABILITY**

Andrew A. SanFilippo, Executive Deputy Comptroller  
Steven J. Hancox, Deputy Comptroller  
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