



# Amagansett Union Free School District Financial Condition

## Report of Examination

Period Covered:

July 1, 2012 — September 30, 2013

2014M-91



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## Division of Local Government and School Accountability

July 2014

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 Amagansett Union Free 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 Amagansett Union Free School District (District) is located in Suffolk County in the Town of East Hampton. 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 the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with the District Treasurer, for day-to-day District management under the Board's direction.

The District operates one school with 108 students attending kindergarten through grade six and has 38 employees. Seventy-five students in grades 7 through 12 attend school in other districts for which the District pays tuition. The District's actual expenditures for the 2012-13 fiscal year were \$8,540,065. Budgeted appropriations for the 2013-14 fiscal year were \$10,218,263 which were funded primarily with real property taxes.

## **Objective**

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

- Did the Board and District management effectively manage the District's budget and financial condition?

## **Scope and Methodology**

We examined the District's financial condition for the period July 1, 2012 through September 30, 2013. We extended our scope back to July 1, 2009 to analyze budgeting practices, fund balance trends and reserve account balances. We also reviewed the District's budget for 2013-14.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix 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 generally agreed with our recommendations and indicated they planned to take corrective action. 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 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 Treasurer. The general fund is the main operating fund in which financial transactions for District educational programs and other operating activities are recorded. The general fund's financial condition depends on the District officials' ability to adopt realistic budgets that accurately depict financial activity and use available resources to ensure that the tax burden is not greater than necessary. It is essential that officials manage fund balance responsibly and in accordance with statute. Districts may establish reserves to restrict a portion of fund balance for a specific purpose in compliance with statutory directives. A formal plan should be developed that specifies how much should be set aside in the reserves and how these funds will be used. Generally, school districts are not limited as to how much money can be held in reserves; however, reserve balances should be reasonable.

District officials have underestimated revenues and overestimated appropriations for the budgets for the 2009-10 through the 2012-13 fiscal years. As a result, the District had operating surpluses totaling almost \$1.6 million during this four-year period. Although the Board appropriated unexpended surplus funds<sup>1</sup> each year to help fund the subsequent years' operations, the District did not actually use any fund balance. Furthermore, the District has accumulated unexpended surplus funds of up to two times the amount allowed by statute. District officials used some of the annual operating surpluses to fund six reserves that, as of June 30, 2013, totaled \$1.7 million. However, two of the reserves, with balances totaling over \$1 million, had excessive balances and no formal plan for funding or using the reserves. As a result, the financial transparency to the taxpayers was diminished and real property tax levies have been greater than necessary to fund operations.

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<sup>1</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).

## **Budgeting and Fund Balance**

The Board is responsible for preparing and presenting the District's budget to the public for a vote. In preparing a realistic budget, the Board is responsible for estimating what the District will spend and what it will receive in general fund revenue (e.g., property taxes), estimating how much fund balance will be available at fiscal year-end and determining what the expected tax levy will be. Accurate estimates help ensure that the real property tax levy is no greater than necessary.

A key measure of financial condition is the level of fund balance, which represents resources remaining from prior fiscal years that can be assigned as a funding source in the budget or retained as unassigned. A reasonable amount of fund balance should be maintained for cash flow purposes or to fund unexpected expenditures. Real Property Tax Law allows a school district to retain a limited amount of fund balance (up to 4 percent of the subsequent year's budget) as unexpended surplus. Fund balance in excess of that amount must be used to fund a portion of the next year's appropriations, thereby reducing the tax levy, or to fund legally established reserves.

When fund balance is appropriated as a funding source, it reduces the fund balance included in the 4 percent calculation. The expectation is that there will be a planned operating deficit in the ensuing fiscal year, financed by the amount of the appropriated fund balance. Conversely, an operating surplus (when budgeted appropriations are under 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 a sound practice to routinely adopt annual budgets that appropriate fund balance that will not actually be used. This practice can mislead taxpayers; instead of decreasing the unexpended surplus funds as advertised, it further increases the amount of surplus fund balance.

District officials routinely overestimated expenditures and underestimated revenues in their adopted budgets, which, as a result, generated significant budgetary and operating surpluses. Had District officials based revenue and expenditure estimates on historical data, they may have avoided such significant variances. For 2009-10 through 2012-13, District officials underestimated revenues by a total of more than \$851,000 and overestimated appropriations by a total of more than \$4 million, as follows:

<b>Table 1: General Fund Budget-to-Actual</b>					
	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>Totals</b>
Budgeted Revenues	\$7,389,717	\$7,728,650	\$8,413,489	\$8,736,454	<b>\$32,268,310</b>
Actual Revenues	\$7,498,137	\$8,269,927	\$8,556,281	\$8,795,816	<b>\$33,120,161</b>
Underestimated Revenues	\$108,420	\$541,277	\$142,792	\$59,362	<b>\$851,851</b>
Budgeted Appropriations	\$8,079,615	\$8,417,108	\$9,266,430	\$9,793,699	<b>\$35,556,852</b>
Actual Appropriations	\$7,579,315	\$7,420,258	\$7,605,158	\$8,924,065	<b>\$31,528,796</b>
Overestimated Appropriations	\$500,300	\$996,850	\$1,661,272	\$869,634	<b>\$4,028,056</b>
<b>Total Variance</b>	<b>\$608,720</b>	<b>\$1,538,127</b>	<b>\$1,804,064</b>	<b>\$928,996</b>	<b>\$4,879,907</b>

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 budgets resulted in a total surplus of almost \$4.9 million over the last four fiscal years. The majority of the overestimated expenditures were for tuition expenditures, for both regular education and children with disabilities. Regular tuition has been overestimated all four years by over \$2.2 million and program/tuition for children with disabilities was overestimated in three fiscal years by more than \$228,000.<sup>2</sup> District officials indicated that they pay tuition for resident-students to attend another school district and that the number of resident-students they pay tuition for varies from year to year because the District's rental community is unpredictable. The District may face different challenges than other school districts; however, Real Property Tax Law is applicable to all school districts. The failure of the Board to adopt budgets with more accurate revenue and expenditure estimates has contributed to the increase in unexpended surplus funds beyond 4 percent of the ensuing year's budget in violation of Real Property Tax Law, as shown in Table 2.

<b>Table 2: Results of Operations/Use of Surplus Funds</b>					
	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>Totals</b>
Actual Revenues	\$7,498,137	\$8,269,927	\$8,556,281	\$8,795,816	<b>\$33,120,161</b>
Actual Expenditures	\$7,579,315	\$7,420,258	\$7,605,158	\$8,924,065	<b>\$31,528,796</b>
Operating Surplus/(Deficit)	(\$81,178)	\$849,669	\$951,123	(\$128,249)	<b>\$1,591,365</b>
Appropriated Fund Balance	\$572,000	\$572,000	\$777,057	\$932,894	<b>\$2,853,951</b>
Unexpended Surplus Funds	\$402,536	\$484,231	\$753,310	\$645,044	<b>\$2,285,121</b>
Ensuing Year's Appropriations	\$8,300,650	\$9,190,546	\$9,669,348	\$10,218,263	<b>\$37,378,807</b>
Unexpended Surplus as a Percentage of Ensuing Year's Appropriations	4.85%	5.27%	7.79%	6.31%	<b>6.11%</b>

<sup>2</sup> Program/tuition for handicapped children was overestimated in 2010-11, 2011-12 and 2012-13.

During this four-year period, the Board consistently appropriated unexpended surplus funds totaling more than \$2.8 million to fund subsequent years' operations and reduce the tax levies. This should have resulted in annual operating deficits equal to the amounts of surplus funds appropriated. In reality, the budgets resulted in operating surpluses in two of the four years reviewed, with actual revenues exceeding actual expenditures over the four years by almost \$1.6 million.

In addition, the District's tax levies have increased annually from \$7,062,718 in 2009-10 to \$8,711,584 in 2013-14, an increase of 23.4 percent. Had District officials used more realistic estimates, the increases in the tax levies may not have been necessary.

Furthermore, the District's last four independent audit reports contained findings related to the unexpended surplus fund balance being in excess of the statutory limit. However, District officials have not developed a multi-year plan to reduce the unexpended surplus fund balance. As a result, there has been a lack of financial transparency to the taxpayers and real property tax levies have been greater than necessary to fund operations.

## **Reserve Funds**

School districts may establish reserve funds to retain a portion of fund balance to finance a variety of objects or purposes<sup>3</sup> but must do so in compliance with statutory directives. When District officials establish reserves for specific purposes, it is important that they develop a formal plan for how to fund the reserves, how much should be accumulated in the reserves, how and when these moneys will be used to finance related costs and what documentation should be maintained to account for and monitor reserve activity and balances. 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 moneys.

Generally, school districts are not limited as to how much money can be held in reserves; however, reserve balances should 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.

As of June 30, 2013, the District had six reserves in the general fund totaling \$1.7 million. Two of these reserves had excessive balances: the retirement contribution reserve was \$608,422 and the Unemployment Insurance reserve was \$478,141. District officials have not developed

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<sup>3</sup> Guidance is available in the Office of the State Comptroller publication entitled *Local Government/Management Guide, Reserve Funds*, <http://www.osc.state.ny.us/localgov/pubs/lmg/reservefunds.pdf>

a formal plan stating how much will be set aside in each reserve, how each reserve will be funded or when the balances will be used.

Retirement Contribution Reserve – General Municipal Law (GML) authorizes the Board to create a retirement contribution reserve to finance retirement contributions payable to the New York State and Local Employees’ Retirement System (NYSLRS).<sup>4</sup> A portion of the funds in this reserve may be transferred to certain other reserves in accordance with statutory requirements. The District’s retirement reserve was established in 2008-09 with a starting balance of \$26,000. The District funded this reserve with excess fund balance totaling \$580,000 for the past four fiscal years and has not expended any moneys from this reserve during this period, resulting in a reserve balance that totaled \$608,422<sup>5</sup> as of June 30, 2013. Instead, the Board has consistently budgeted and paid for retirement contributions directly from general fund appropriations. The District budgeted \$367,000 and paid \$380,000 over the past four fiscal years from the general fund for retirement contribution payments. The District spent no more than \$144,225 in any of these fiscal years from general fund appropriations. Therefore, this reserve does not appear to be necessary and it was not supported by a plan or other documentation validating the amount retained.

Unemployment Insurance Reserve – GML authorizes boards to create this reserve to reimburse the State Unemployment Insurance Fund (SUIF) for any unemployment costs. At the end of any fiscal year, if the money in this reserve exceeds the amount required to pay the SUIF and any additional amounts required to pay all pending claims, the Board may elect to transfer the excess amount to certain other reserve funds or apply this excess to the budget appropriations of the next succeeding fiscal year.

Over the past four fiscal years, District officials transferred \$425,000 of excess fund balance to this reserve,<sup>6</sup> resulting in a reserve balance that totaled \$478,141 as of June 30, 2013. However, District officials have not made any payments from it. Instead, they have budgeted and paid for unemployment insurance claims each fiscal year directly from the general fund. District officials budgeted a total of \$54,000 over the past four fiscal years and had total expenditures of \$22,345,<sup>7</sup> with an average of \$5,586 spent annually. District officials have appropriated more than twice as much money than was necessary in

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<sup>4</sup> This reserve cannot be used to pay costs associated with the New York State Teachers’ Retirement System.

<sup>5</sup> \$26,000+\$580,000+\$2,422 interest = \$608,622

<sup>6</sup> District officials could not provide us with the resolution establishing the reserve. They indicated that the reserve was established during the 1998-99 fiscal year.

<sup>7</sup> Rounding difference = \$1

the general fund and have not used any of the moneys transferred to the reserve fund. By maintaining a balance in this reserve that is 85 times the average annual expenditures, while paying for unemployment insurance costs from general fund appropriations, District officials have not used these funds in a prudent manner.

By combining budgeting practices that repeatedly generated operating surpluses and maintaining excessive or unnecessary reserves, the Board and District officials have retained significant excess funds. As a result, the financial transparency to the taxpayers was diminished and real property taxes have been unnecessarily high.

## **Recommendations**

### 1. The Board should:

- Develop and adopt budgets that include realistic estimates for revenues and expenditures based on all information available at that current time including historical data, and
- Discontinue the practice of adopting budgets that result in the appropriation of unexpended surplus funds that will not be used.

### 2. The Board and District officials should:

- Ensure that unexpended surplus fund amounts are within statutory limits,
- Develop a multi-year plan to reduce the unexpended surplus fund balance in a manner that benefits District taxpayers. Such uses could include, but are not limited to, increasing necessary reserves, paying off debt, financing one-time expenditures and reducing property taxes.
- Develop a formal plan indicating how much money will be reserved, how each reserve will be funded and when the balances will be used and
- Review all reserves at least annually to determine if the amounts reserved are necessary and reasonable.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

AMAGANSETT UNION FREE SCHOOL DISTRICT  
POB 7062, 320 Main Street  
Amagansett, New York 11930-7062  
Tel. (631) 267.3572/Fax. (631) 267.7504  
Website: [www.aufsd.org](http://www.aufsd.org)

**BOARD OF EDUCATION**

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Patrick Bistran III, Member  
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Phelan Wolf, Member  
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Cheryl E. Bloecker, District Clerk

**SUPERINTENDENT OF SCHOOLS**  
Eleanor Tritt

**INTERIM PRINCIPAL**  
Thomas Lamorgese, Ed.D.

June 12, 2014

Mr. Ira McCracken, Chief Examiner  
Office of the State Comptroller  
Division of Local Government and School Accountability  
New York State Office Building, Room 3A10  
250 Veterans Memorial Highway  
Hauppauge, New York 11788-5533

Re: Amagansett Union Free School District – 2014M-91  
Response from District

Dear Mr. McCracken:

The Amagansett Union Free School District acknowledges receipt of the *Report of Examination (2014M-91) – Financial Condition* (draft) for the Period July 1, 2012 – September 30, 2013. We have reviewed and appreciate the findings and recommendations outlined in your report. We will use your recommendations to help us improve our budgeting process and long-range strategic planning, in order to manage the District's finances more effectively while meeting the expectations of our community. We will prepare and submit a corrective action plan in response to your final findings and recommendations within the required 90-day window.

Our District takes a conservative approach in the budgeting process in order to sustain our academic programs while coping with reduced school aid as well as increases in operating costs that are beyond the District's control, such as continuing unfunded mandates, significant increases in retirement systems contribution costs, health insurance costs, and last but certainly not least, unpredictable fluctuations in enrollment (in fiscal 2009-10, our District had 50 tuition students; three years later, in 2012-13, our District had 75 tuition students, an astounding increase of 50%!). As we explained to your audit staff, the potential for dramatic fluctuations in tuition students and the resultant tuition costs are the primary reasons that the District has been very conservative in estimating the annual budgets.

Nevertheless, we acknowledge and understand the importance of preparing more accurate budget estimates that would allow the District to strike a balance of preserving our educational programs, endeavoring to stay within the property tax cap and maintaining a fund balance level that is reasonable and allows the District to avoid falling into fiscal stress.

The District strives to be transparent about its financial condition. We post the audited financial statements and auditor's reports on the District's official website so that our residents can read those reports in their entirety. And we try to provide meaningful and relevant information in our annual

financial statements, including explanations for operating results and variances between budgeted and actual amounts in the Management’s Discussions and Analysis section of the financial statements.

While we generally agree with the overall findings of your audit, we would like to point out certain circumstances that would mitigate specific findings.

- Table 1 of the report, labeled “General Fund Budget-to-Actual”, shows actual revenues in excess of budgeted revenues by approximately \$800,000 for the four fiscal years combined. While technically accurate, there is more to this total variance than the table reports. As you know, budgets are estimates; thus, actual results will differ from budget estimates. We would like to point out that in fiscal 2009-10 and fiscal 2012-13, actual revenues exceeded budgeted revenues by \$56,645 and \$59,362, respectively, or less than 1% of budgeted revenues - 0.78% and 0.68%, respectively, to be specific.

See  
Note 1  
Page 15

For 2010-11, the table showed an “Underestimated Revenues” amount of \$541,277. The budgeted revenues of \$7,728,650 in the table was the original revenue budget; the budget was subsequently revised and property taxes increased by approximately \$315,000 due to unanticipated increase in enrollment, a fact which was communicated to our community in a letter sent to the residents from the Board of Education. The actual revenue budget variance after taking into account the budget and tax levy increases was \$225,727. This variance was mostly the result of an unanticipated refund of approximately \$209,000 received from another school district in the settlement of a tuition dispute; the District certainly could not have foreseen this settlement or the amount of the refund when preparing for the 2010-11 budget back in the spring of 2010. For 2011-12, approximately \$73,000 of the \$142,792 revenue budget variance was due to tuition refunds.

The actual appropriations depicted in your table, which do not include operating transfers out (see below paragraph), actually illustrate the effect of unpredictable fluctuations in tuition students enrollment and significant increases in employee benefit costs on the District’s expenditures. The actual appropriations for 2010-11 decreased by \$159,057, or 2.1% from 2009-10. In 2011-12, the actual appropriations number increased by \$184,900, or 2.5%, from the previous year. The 2012-13 actual appropriations increased by \$1,318,907, a dramatic 17.3% increase from the previous year.

See  
Note 2  
Page 15

We would also like to point out some information within your report which we believe to be incomplete and, therefore, may be misleading.

- Table 1 also shows the total actual appropriations for the four fiscal years combined to be approximately \$4,671,000 less than budgeted appropriations. However, actual operating transfers to other funds in each of the four fiscal years were excluded from the annual actual appropriations in this table, even though they were budgeted for and were actually transferred to the Capital Projects Fund, where the funds had been utilized for capital expenditures over the four-year period represented in the table. The total actual appropriations in this table should have been \$31,528,796, or \$1,077,276 higher. Because of the omission of actual operating transfers out from the actual appropriations, the “Total (Budget) Variance” amounts in this table is overstated by over \$1 million.

See  
Note 2  
Page 15

Also, in the sentence immediately following Table 1, your report states that “.....when in reality the District’s budgets resulted in total surplus of almost \$5.5 million over the last four fiscal years.....” We believe using the word “surplus” to describe the “\$5.5 million” (which should actually be \$4.4 million) is misleading; these amounts represent total *budget variances* for the four fiscal years combined. A surplus is generated when actual revenues exceed actual

See  
Note 3  
Page 15

expenditures. From the 2009-10 to 2012-13 fiscal years, the general fund's total fund balance increased by \$1,591,365, the total actual operating surplus for the four years.

- Table 2, labeled "Results of Operations/Use of Surplus Funds", depicts a total operating surplus of \$2,616,866 for the four fiscal years combined; however, the actual revenues and actual expenditures in this table also exclude the actual operating transfers in and operating transfers out of the general fund. Had the true total actual revenues and expenditures including actual operating transfers been included in the table, the operating surplus as depicted in the table would have been \$1,591,365 as indicated above, approximately \$1 million lower than depicted in your table.

See  
Note 3  
Page 15

While it has always been the goal of the Board of Education and District officials to maintain both our educational programs and the fiscal health of the District, going forward, our budget process will also address the observations highlighted in your report to ensure that unexpended surplus funds are within statutory limits. Additionally, the District is in the process of formalizing a multi-year fiscal plan which includes the review and use of established reserves and exploring the possibility of establishing new reserves if appropriate and necessary for the District's fiscal stability and preservation of property.

We would like to thank your office and the audit staff for the professionalism demonstrated throughout the audit process.

Thank you for your consideration in this matter.

Very truly yours,

Victoria Handy  
Board President

## APPENDIX B

### OSC COMMENTS ON THE DISTRICT'S RESPONSE

#### Note 1

Actual revenues exceeded budgeted revenues in 2009-10 by \$108,420, not by \$56,645 as stated in the District's response. The District's number does not include a \$51,775 transfer from the capital projects fund to the general fund.

#### Note 2

The report has been revised to include operating transfers in Table 1 and Table 2. The differences between the revised appropriations in Table 1 are consistent with the differences as indicated in the District's response letter. Although the revised appropriations in the tables resulted in higher appropriations, the budgeted appropriations were still greater than actual appropriations by \$4 million over the four fiscal years.

#### Note 3

The budgetary surplus in Table 1, which is the sum of the differences between budgeted and actual amounts for revenues and appropriations/expenditures, has been revised from almost \$5.5 million over the last four fiscal years to almost \$4.9 million over the last four fiscal years. The operating surplus in Table 2, totaling actual revenues that exceeded actual expenditures, has been revised from \$2,616,866 to \$1,591,635. While these revisions resulted in lower reported surpluses, the reported surpluses are still reflective of the District's ineffective budgetary practices.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing and payroll and personal services.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft and professional misconduct. We then decided on the reported objective and scope by selecting for audit the area most at risk. We selected financial condition for further audit testing.

- We interviewed District officials to gain an understanding of the processes and procedures over the District's financial management.
- We reviewed the results of operations and analyzed changes in fund balance for the general fund.
- We reviewed the District's audited financial statements and documented unexpended surplus funds, reserve funds, revenues and expenditures.
- We reviewed appropriation status reports.
- We tested the reliability of the data reported in audited financial statements by reviewing bank statements, bank deposits and cash receipts.
- We reviewed the real property tax warrants, receipts and levy increases.
- We compared unexpended surplus funds to the ensuing year's appropriations to determine if the District was within the statutory limit.
- We performed budget-to-actual comparisons of revenues and expenditures to determine if there were operating surpluses or deficits and whether the budgets were realistic and supported.

- 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 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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**DIVISION OF LOCAL GOVERNMENT**  
**AND SCHOOL ACCOUNTABILITY**

Andrew A. SanFilippo, Executive Deputy Comptroller  
Gabriel F. Deyo, Deputy Comptroller  
Nathalie N. Carey, Assistant Comptroller

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