



Eastchester Union Free School District Financial Management

Report of Examination

Period Covered:

July 1, 2010 – November 6, 2015

2016M-59



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

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 Eastchester Union Free School District, entitled Financial Management. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the 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 Eastchester Union Free School District (District) is located in the Town of Eastchester, Westchester County. The District is governed by the Board of Education (Board), which is composed of nine 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 other administrative staff, for the District's day-to-day management under the Board's direction.

The District operates five schools with approximately 3,200 students and 740 employees. The District's budgeted appropriations for the 2015-16 fiscal year were approximately \$80 million, funded primarily with real property taxes, State aid and tuition.

The Superintendent, with assistance from the Assistant Superintendent for Business,¹ is responsible for preparing the annual budget. Once the tentative budget is complete, it is formally presented to the Board for final approval. As part of its expenditures, the District pays real property tax refunds arising out of court settlement tax certiorari cases for real property tax disputes. The District pays for tax certiorari expenditures by issuing a serial bond at the end of the fiscal year. For fiscal years 2010-11 through 2014-15, the District paid approximately \$6.7 million for refunds of real property taxes in part from proceeds from serial bonds totaling \$6.1 million.

Objective

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

- Are the Board's actions to maintain the District's financial stability effective and transparent?

Scope and Methodology

We evaluate the Board's management of the District's financial affairs for the period July 1, 2010 through November 6, 2015. We extended our scope period back to July 1, 1997² to examine all outstanding debt issuances used to pay for refunds of real property taxes.

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

¹ The current Assistant Superintendent for Business assumed the position on August 1, 2015, after the prior individual retired.

² The serial bond from 1997 and another from 1999 were refunded in 2005 to obtain a lower interest rate.

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. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the 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 Management

District officials are accountable for the use of District resources and are responsible for effectively planning and managing the District's financial operations. The Board and Superintendent are responsible for ensuring that budgets are transparent and inclusive of all estimated appropriations and revenue sources that enable District residents to make informed decisions when voting on the budget. Financial decisions come with costs and benefits that must be carefully weighed by the Board to ensure that District funds are spent in the most effective and efficient manner. A multiyear financial plan is an effective tool for establishing long-term priorities and seeing the impact of financial decisions over time.

Over the last five fiscal years, budgets presented to District residents were not as transparent as they could have been because they did not include estimated amounts for tax certiorari³ judgments or amounts to fund them. District officials issued debt to pay for tax certiorari judgments, which masked the District's true operating results. Without the issuance of debt, the District's fund balance would have declined by almost \$3.1 million. Although the District appropriated more than \$4.5 million of fund balance over the last five years⁴ which was intended to fund a portion of the budget, only \$333,623 of this amount was actually used. In addition, the District issued debt to fund tax certiorari judgments during the 2014-15 fiscal year rather than using funds held in reserve to pay for these judgments.

District officials did not have any cost-benefit analysis to show that issuing debt was the most cost-effective method for paying for tax certiorari judgments. As a result of the debt issuances, residents are responsible for \$3 million in interest and additional fees⁵ for all 11 outstanding debt issuances. The additional costs associated with the issuance of debt may impact future school programs or place an unnecessary burden on residents. In addition, District officials do not have a comprehensive, multiyear financial plan.

³ A tax certiorari is the legal process by which the courts review a real property assessment. If the total assessment exceeds the value of the property, a judgment is made to refund the tax overpayment.

⁴ The District appropriated the following amounts of fund balance to be used as a revenue source in the specified year's adopted budget: \$800,000 in 2010-11, \$950,000 in 2011-12, \$1,119,059 in 2012-13, \$1,100,000 in 2013-14, and \$600,000 in 2014-15. Amounts unused are generally appropriated in the following year.

⁵ We reviewed the additional fees associated with the last five bond issuances. See Footnote "a" in Figure 3 in the section entitled "Tax Certiorari Payments."

Budget Transparency

Budget transparency is important for public participation and accountability and allows District residents to provide feedback on the quality and adequacy of services as well as decisions that impact the District's long-term financial stability. It is essential that the Board prepares budgets based on historical or known trends, such as including an estimated amount for recurring tax certiorari expenditures. The Board should inform District residents of its intention to issue debt to finance certain expenditures because consistent use of debt to finance recurring expenditures increases costs to residents. Presenting complete budget information allows District residents the opportunity to make informed decisions when voting on the budget.

From 2010-11 through 2014-15, District officials appropriated fund balance totaling more than \$4.5 million of which only \$333,623, or 7.4 percent, was actually used. The Board adopted budgets that did not include any estimated revenues from tax certiorari bond issuances⁶ or appropriations for the refund of real property taxes. However, the District paid approximately \$6.7 million in refunds of real property taxes and issued debt of \$6.1 million to pay for these refunds, despite having unused appropriated fund balance of \$4.2 million available to potentially offset the need to issue debt. The District's accountant told us that tax certiorari judgments are recorded throughout the year, resulting in a consistent negative balance in the appropriation account. The negative balance is eliminated when the bond revenue is received and recorded near the end of each fiscal year. When the District issued debt, it was properly recorded as a revenue; however, this skewed the operating results and gave the appearance that the District was operating at a surplus in four of the last five years.

	2010-11	2011-12	2012-13	2013-14	2014-15
Revenues	\$70,165,991	\$72,375,737	\$74,058,444	\$76,925,623	\$79,471,000
Expenditures	\$69,161,752	\$71,179,122	\$74,028,457	\$77,259,246	\$78,323,108
Operating Surplus/(Deficit)	\$1,004,239	\$1,196,615	\$29,987	(\$333,623)	\$1,147,892

We evaluated the impact to the District's operating results if these bonds were not included as revenue. As indicate in Figure 2, operating results differed significantly without including bond revenue. The District would have incurred operating deficits in three of the five years and fund balance would have declined by almost \$3.1 million.

⁶ Although the budget document contains a note informing residents of an upcoming bond issuance to pay for refunds of real property taxes, the adopted budgets did not contain an estimated amount of debt to be issued each year for these expenditures.

Figure 2: Bond Effect on Operating Results

	2010-11	2011-12	2012-13	2013-14	2014-15	Totals
Reported Operating Surplus/(Deficit)	\$1,004,239	\$1,196,615	\$29,987	(\$333,623)	\$1,147,892	\$3,045,110
Tax Certiorari Bonds	\$1,178,365	\$665,613	\$1,501,513	\$1,898,943	\$890,949	\$6,135,383
Effective Operating Surplus/(Deficit)	(\$174,126)	\$531,002	(\$1,471,526)	(\$2,232,566) ^a	\$256,943	(\$3,090,273)

^a The operating deficit increase from 2012-13 to 2013-14 was primarily due to increased costs in employee benefits.

The District has about \$18.5 million in pending tax certiorari claims and will likely continue to incur judgments in the upcoming years. Board members told us that it would be more prudent to amortize tax certiorari judgment payments over a period longer than a fiscal year because most of the judgments cover a period longer than a single year.

The use of nonrecurring revenues to support recurring expenditures may appear to offer a solution for balancing the budget. However, issuing debt is a short-term solution and only temporarily defers the need to address structural budget imbalances. Further, by not informing the District residents of the estimated amount to be paid and the District’s plan to issue debt, it hinders their ability to make an informed decision on the budget.

Tax Certiorari Payments

A tax certiorari is a legal proceeding whereby a taxpayer challenges their property assessment on the grounds of excessiveness, inequality, illegality or misclassification. If the taxpayer has a favorable ruling, the affected local government owes a refund to the taxpayer for the difference in the property tax assessment as specified in the ruling. Education Law authorizes school districts to create a tax certiorari reserve as a mechanism for holding funds to finance all or part of future expenditures for tax certiorari. Reserve funds provide a degree of financial stability by reducing reliance on indebtedness to pay these refunds.

The District’s projected potential liability for tax certiorari judgments is more than \$18.5 million as of November 6, 2015. Although the District pays tax certiorari judgments during the fiscal year in which they occur, the District does not budget or plan for such payments. The District issued a bond near the end of each of the past five fiscal years to pay for that year’s tax certiorari judgments and settlements. Bond issuances were not included as a revenue estimate in the annual budgets. According to District officials, bonding to pay for tax certiorari judgments is not a new practice. While bonding for tax certiorari judgments is permissible, District officials have not prepared any cost-benefit analysis to help them determine whether this practice is cost effective.

The District is currently repaying 11 tax certiorari bonds dating back to 1997.⁷ The length of these bonds vary between 10 and 15 years, with the last bond payment scheduled to occur in 2025. For example, the 2015 bond paid for tax certiorari judgments for years dating back to 2006, which means that the District will be paying for the refund of 2006 year taxes in 2025. Also, there are costs associated with repaying each bond, including legal and financial fees for preparing the bond, as well as interest payments. The total amount of principal to be repaid and the additional interest cost for the current 11 bonds is more than \$16 million. The additional legal and financial fees for the past five years' bond issuances totaled \$30,519. As a result, the cost in excess of principal is almost \$3 million as illustrated in Figure 3.

Total Principal	\$13,063,878
Total Interest	\$2,946,803
Total Principal and Interest	\$16,010,681
Additional Fees (Legal/Financial) ^a	\$30,519
Total To Be Paid	\$16,041,200
Total Cost in Excess of Principal	\$2,977,322
<small>^a For purposes of our audit, we considered the additional fees for the bond issuance each year from 2010-11 through 2014-15 (five bonds total). The amount of additional fees for all 11 outstanding bonds is considerably higher.</small>	

The Board created a tax certiorari reserve in August 2012 to put funds aside to offset the costs arising from tax certiorari judgments. During the 2014-15 fiscal year, the Board placed approximately \$850,000 into the reserve and issued a bond totaling \$890,949 to pay for tax certiorari judgments totaling about \$900,000. Although the Board's intent is to buildup the reserve, the Board has not prepared a cost-benefit analysis to help determine if the issuance of bonds is a more cost-efficient method of paying for refunds of real property taxes.

It is important to consider the cost associated with each bond issuance. For example, the costs associated with the issuance of the 2014-15 bond were calculated to be \$153,200 and \$5,600 for interest and issuance fees, respectively. Without performing a cost-benefit analysis to evaluate all options and associated impact in future years, District officials may be placing an unnecessary burden on District residents.

Multiyear Financial Planning

A multiyear financial plan projects revenues and expenditures for several years into the future. Unlike a multiyear budget, it does not authorize expenditures. Instead, it illustrates what will happen to a local government's ability to pay for and provide services, given a set of policy and economic assumptions. These projections help officials

⁷ The serial bond from 1997 and another from 1999 were refunded in 2005 to obtain a lower interest rate.

assess expenditure commitments, revenue trends, financial risks and the affordability of new services.

The District does not have a written, comprehensive multiyear financial plan for operating expenditures. Board members believe that accurate forecasts for some of the revenues and expenditures have been nearly impossible to maintain due to timing of certain repayments and significant variances in items from year-to-year, such as the consumer price index and tax certiorari judgments. While we understand that revenue and expenditure outcomes are dependent on a variety of factors, many of which are out of the District's control, a plan can be updated as new information is known.

In addition, a plan can help residents and District officials see the impact of their fiscal decisions over time and decrease the risk of sudden tax increases or budget cuts. For example, District officials could use a multiyear financial plan to determine how tax certiorari judgments could be funded through use of the tax certiorari reserve and unrestricted fund balance as an alternative to an annual bond issuance. By using different economic assumptions through a comprehensive plan, District officials could develop a strategy for how they can reduce or eliminate the need for tax certiorari bonding.

Recommendations

The Board should:

1. Ensure that all estimated appropriations and revenues are in the budget, including potential tax certiorari costs and debt issuances.
2. Consider using budgeted appropriations and available fund balance as financing sources for the refund of real property tax expenditures instead of issuing debt.

District officials should:

3. Perform a cost-benefit analysis and evaluate the financial impact of debt issuance on District operations.
4. Develop a comprehensive multiyear financial plan that projects operating needs and financing sources over a three- to five-year period. This plan should be monitored and updated on an ongoing basis.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



EASTCHESTER UNION FREE SCHOOL DISTRICT

Walter R. Moran III, Ed.D.
Superintendent of Schools

May 13, 2016

Ms. Tenneh Blamah
Chief Examiner of Local Government and
School Accountability
Office of the State Comptroller
Newburgh Regional Office
33 Airport Center Drive, Suite 103
New Windsor, New York 12253

Dear Ms. Blamah:

The Eastchester Union Free School District is in receipt of the draft Report of Examination titled "Financial Management" for the period of July 1, 2010 – November 6, 2015. We would like to thank the audit staff for their professionalism and thoroughness during the audit engagement.

The District is extremely pleased that after such a detailed and lengthy audit, there were no findings of fraud, abuse, or misappropriation. The District takes its fiduciary responsibility very seriously, and we welcome any constructive feedback that would assist us in fulfilling that duty.

The report highlights the importance of budget transparency when preparing budgets, as it allows for residents to make informed decisions. We agree that budget transparency is critical, and we believe that our budgeting and financial reporting practices provide taxpayers with all relevant financial information, including the payment of tax certiorari refunds. Each year, our audited financial statements are made available to the public on our website. This financial report clearly articulates the District's practice of issuing debt for tax certiorari refunds. Our budget document also includes a budget code entitled Refund of Real Property Taxes – Tax Certs in which the prior year's actual expenditures are disclosed, as well as the description "(b)onds issued to pay for tax certiorari judgments." As such, there is no budgeted amount included.

See
Note 1
Page 15

The report also suggests that the District had \$4.5 million available over the audit period to pay for tax certiorari refunds without issuing debt. We believe this assessment is inaccurate. The following table shows the fund balance amounts appropriated from each year and the tax certiorari refunds paid in that same year:

See
Note 2
Page 15



EASTCHESTER UNION FREE SCHOOL DISTRICT

Walter R. Moran III, Ed.D.
Superintendent of Schools

	2010-11	2011-12	2012-13	2013-14	2014-15
Fund Balance Appropriated	\$950,000	\$1,119,059	\$1,100,000	\$600,000	\$600,000
Tax Certiorari Refunds Paid	\$1,231,052	\$1,179,480	\$1,501,514	\$1,898,944	\$905,146

If we are to assume that the District used the \$950,000 to pay the tax certiorari refunds from 2010-11 instead of appropriating it to the 2011-12 year, the District would still have to issue debt to cover the balance, although a lesser amount. Further, the District would not have \$1,119,059 available in 2011-12 to appropriate or pay that year's tax certiorari refunds, as the \$950,000 from 2010-11 would be gone. In theory, there would only be \$169,059 available, and the District would still need to issue debt to pay the balance. The fund balance appropriated would thus not be available in the subsequent years as well. This report accumulates the appropriated fund balances over five years to arrive at the \$4.5 million figure, but as you can see, these amounts are not cumulative. We believe it is also inaccurate to state that of the \$4.5 million appropriated, only \$333,623 or 7.4% was actually used. In the 2013-14 year, a \$333,623 operating deficit was recorded. The amount appropriated for that year was \$1,100,000. Therefore, 30.3% of the appropriation for that year was used. If the funds are not used in the year in which they were appropriated, they are carried over to the next year. One year does not build upon the next. And if the funds are used, then they are unavailable for the next year.

See Note 2
Page 15

The report also suggests that by issuing debt for tax certiorari refunds, the true operating results were "masked." It should be noted that issuing debt for tax certiorari refunds is a legal practice allowed by Local Finance Law, and the District accounted for these transactions appropriately in accordance with the Comptroller's Accounting and Reporting Manual, and Generally Accepted Accounting Principles. It is true that if the District did not bond for these refunds, it would be in a much more precarious financial situation, which is exactly why the District bonded for refunds. By our calculations, if the District stopped bonding refunds and paid them outright, the year end fund balance for the 2014-15 year would be less than \$2 million. That is \$5.2 million less than actual. The following table illustrates the projected financial position of the District if we had stopped bonding refunds in 2010-11. In order to get an accurate projection, we have removed the principal and interest payments on the debt which has been acquired since 2010-11 from the reported expenditures. Please note the Proceeds from Debt line is zero.

See Note 3
Page 15

See Note 4
Page 15



EASTCHESTER UNION FREE SCHOOL DISTRICT

Walter R. Moran III, Ed.D.
Superintendent of Schools

	2010-11	2011-12	2012-13	2013-14	2014-15
Revenues	\$ 68,983,107	\$ 71,537,011	\$ 72,556,931	\$ 75,026,680	\$ 78,580,055
Proceed from Debt	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers In	\$ 4,520	\$ 173,113	\$ -	\$ -	\$ -
	<u>\$ 68,987,627</u>	<u>\$ 71,710,124</u>	<u>\$ 72,556,931</u>	<u>\$ 75,026,680</u>	<u>\$ 78,580,055</u>
Expenditures	\$ 69,022,939	\$ 70,995,209	\$ 73,627,285	\$ 76,753,134	\$ 77,068,954
Transfers Out	\$ 138,814	\$ 151,401	\$ 239,256	\$ 229,794	\$ 801,137
	<u>\$ 69,161,753</u>	<u>\$ 71,146,610</u>	<u>\$ 73,866,541</u>	<u>\$ 76,982,928</u>	<u>\$ 77,870,091</u>
Operating Excess (Deficiency)	\$ (174,126)	\$ 563,514	\$ (1,309,610)	\$ (1,956,248)	\$ 709,964
Beginning Fund Balance	\$ 4,159,204	\$ 3,985,078	\$ 4,548,592	\$ 3,238,982	\$ 1,282,734
Ending Fund Balance	<u>\$ 3,985,078</u>	<u>\$ 4,548,592</u>	<u>\$ 3,238,982</u>	<u>\$ 1,282,734</u>	<u>\$ 1,992,698</u>

As illustrated, our 2014-15 fund balance would be a mere 2.5% of the subsequent year's budget, with no reserves. This would most definitely impact our Fiscal Stress Monitoring System scores issued by the Comptroller's Office, as well as our Moody's bond rating, which in turn would impact our interest rates on any future borrowings. This was not a situation the Board of Education thought would be fiscally responsible.

See Note 4 Page 15

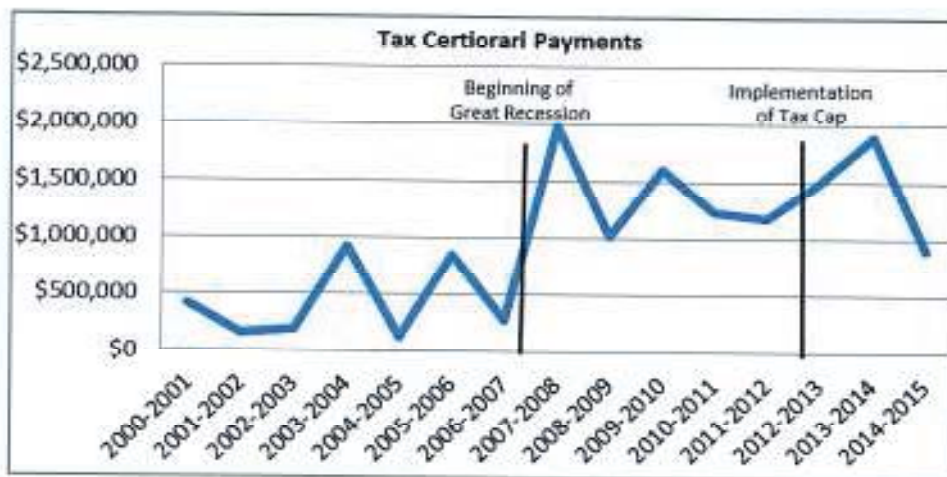
Alternatively, the District could have levied taxes to pay for these refunds, which also would have had a significant impact on the community. We have estimated that the five-year cumulative increase (from 2010-2015) from the issuance of debt in the average taxpayer's school tax bill was \$893. Alternatively, if the District ceased bonding in 2010 and levied taxes instead, the estimated five-year cumulative increase in the average taxpayer's bill would have been \$1,772, an increase of \$879 over the actual.

See Note 4 Page 15

It should be noted that prior to 2012-13, any increase in the tax levy to pay for tax certiorari refunds would not necessarily impact educational programs, as we could have just levied more taxes outright. Keeping in mind the economy and community were in recovery from the Great Recession which began in 2007, raising property taxes during that time was of utmost concern to the Board of Education. Further, once the State implemented the Property Tax Cap in 2012-13, the District had limited choices. As tax certiorari refunds are not exemptions from the tax cap calculation, any increase in the tax levy to pay for these refunds would have to be at the expense of instructional programs. Or, the District would have had to seek an override. Neither of these choices was an option that was palatable to the Board of Education.

See Note 4 Page 15

To fully comprehend the magnitude and complexity of the tax certiorari issue, we found it helpful to illustrate the District's tax certiorari payments over the last fifteen years. The following chart shows the erratic and unpredictable nature of these refunds, and thus the difficulty that comes in attempting to budget for them annually.



While estimating tax certiorari refunds in a budget document appears reasonable in theory and hindsight, in reality it is a difficult task that has many intended and unintended consequences. There are no correct answers, only judgments made with the best information available at the time.

See
 Note 5
 Page 15

The report listed four recommendations, three of which relate specifically to tax certiorari refunds. The following is the District's corrective action plan and response to those recommendations:

- The District will continue to analyze the most appropriate ways to pay for tax certiorari refunds in the future, and consider all options available based on the financial impact to the District and taxpayers. If taxes are to be levied, appropriate amounts will be included in future budgets. For the 2015-2016 year, the District anticipates using appropriations and/or reserve funds to pay for tax certiorari refunds.



EASTCHESTER UNION FREE SCHOOL DISTRICT

Walter R. Moran III, Ed.D.
Superintendent of Schools

- The report also recommends the District prepare a multi-year financial plan. While this plan will no doubt rely heavily upon many assumptions and unknown factors which are not within the District's control, we will attempt to create a plan during the 2016-2017 year that would be meaningful to the community and other stakeholders.

Sincerely,

Walter R. Moran III, Ed.D.
Superintendent of Schools

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

We amended the report to clarify what was included in the budget. It is a best practice to include an amount in the budget for refunds of real property taxes each year. Not only is this practice transparent to the residents, but it also allows District officials to more accurately predict the results of operations and its effect on fund balance.

Note 2

The figure below shows the amount of appropriated fund balance actually used in the year that it was appropriated. Appropriated fund balance totaled approximately \$4.5 million for the five year period. For these five years, the District used 7 percent of the fund balance appropriated. As a result, the District has consistently appropriated significant amounts of fund balance that was not used to reduce the debt issuances to pay for refunds of real property taxes.

	2010-11	2011-12	2012-13	2013-14	2014-15	Totals
Operating Surplus/(Deficit)	\$1,004,239	\$1,196,615	\$29,987	(\$333,623)	\$1,147,893	\$3,045,111
Appropriated Fund Balance	\$800,000	\$950,000	\$1,119,059	\$1,100,000	\$600,000	\$4,569,059
Unused Appropriated Fund Balance	\$800,000	\$950,000	\$1,119,059	\$766,377	\$600,000	\$4,235,436
Percentage of Appropriated Fund Balance Used	0%	0%	0%	30%	0%	7%

Note 3

We amended the report to include that the debt issuances were properly accounted for. Debt issuances gave the appearance that the District was operating at a surplus for four of the five past years. The consistent issuance of debt to pay for refunds of real property taxes, while legal, provides temporary relief from a long-term issue and adds additional interest and issuance costs for which residents are responsible.

Note 4

We are not suggesting that the District officials deplete fund balance. However, District officials did not prepare a cost-benefit analysis to determine whether issuing debt was the most cost-effective method for paying for tax certiorari judgments. In addition, District officials have not developed a comprehensive multiyear financial plan for operating expenditures. Both a cost-benefit analysis and multiyear financial plan are effective tools that could be used to help decrease reliance on debt and keep the District's fund balance at a healthy level.

Note 5

District officials have a record of all pending petitions, historical payouts and tax certiorari exposure. They could calculate an average settlement rate and make a reasonable estimate of the amount of the upcoming year's refunds of real property taxes.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials to gain an understanding of the District's process and procedures for financial management.
- We reviewed policies and procedures and the Board minutes regarding tax certiorari judgments and bonds, reserves and budgeting practices and reviewed tax certiorari bond resolutions to determine if the bonds were legally established and the amount of debt issued for tax certiorari for the past five fiscal years.
- We calculated the operating results without the revenue for tax certiorari bonds to determine how the bonds affected the District's operating results.
- We reviewed tax certiorari petitions to determine the validity of the tax certiorari liability and verified the tax rates by judgmentally selecting 30 petitions for review. Of the 30 petitions reviewed, 20 petitions were randomly selected, and the remaining 10 petitions were selected based on a potential exposure amount greater than \$200,000.
- We reviewed a sample of tax certiorari judgments to verify the amounts paid by randomly selecting five judgments paid each year from 2010-11 through 2014-15.
- We compared the general fund budgeted revenues and appropriations to the actual revenues and expenditures for fiscal years 2010-11 through 2014-15 and identified any budget categories with significant variances. Additionally, we reviewed and analyzed reported fund balance levels in comparison to amounts appropriated in adopted budgets.
- We reviewed the District's tax certiorari records to determine the earliest real property tax refund paid with the 2014-15 tax certiorari bond.
- We examined the bond amortization schedules to calculate aggregate totals for the amount the District pays in principal, interest and issuance fees.
- We examined the funding and usage of the tax certiorari reserve.

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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