Office of the New York State Comptroller

Division of Local Government & School Accountability

Pembroke Central School District

Financial Management

Report of Examination

Period Covered:

July 1, 2012 – December 4, 2015

2016M-31

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 Pembroke Central 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 Pembroke Central School District (District) is located in the Towns of Pembroke, Darien, Batavia and Alexander in Genesee County. The District is governed by the Board of Education (Board), which is composed of 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 other administrative staff, for the District's day-to-day management under the Board's direction. The District Accountant (Accountant) manages the District's day-to-day financial affairs. The Board, Superintendent and Accountant are responsible for the annual budget. Both the Superintendent and Accountant assumed their current roles with the District in January 2012.

The District operates three school buildings and has approximately 975 students and 290 employees. For the 2015-16 fiscal year, the District's general fund budgeted appropriations totaled approximately $21.4 million, funded primarily with State aid and real property taxes.

Objective

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

- Does the District properly manage fund balance and reserves in accordance with statutes?

Scope and Methodology

We examined the District's management of financial activities for the period July 1, 2012 through December 4, 2015.[1]

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 generally agreed with our recommendations and indicated they planned to initiate corrective action. Appendix B includes our comments on issues raised in the District's response letter.

[1] We extended our review of the funding of the debt reserve back to July 1, 2010.

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

The Board and Superintendent are responsible for adopting budgets that contain estimates of actual and necessary expenditures that are funded by planned realistic revenues. Sound budgeting provides sufficient funding for necessary operations. Once the Board has addressed the operational issues, any remaining fund balance,[2] exclusive of the amount allowed by law to be retained to address cash flow and unexpected occurrences, should be used to reduce the local property tax levy. The portion of fund balance used to reduce the property tax levy is referred to as appropriated fund balance. A district may retain a portion of fund balance referred to as unrestricted fund balance, but must do so within the legal limits established by New York State Real Property Tax Law (RPTL). RPTL limits the amount of unrestricted fund balance to no more than 4 percent of the subsequent year's budget.

Prudent fiscal management includes establishing reserves that are needed to address long-term obligations or planned future expenditures. A district can legally set aside and reserve portions of fund balance to finance future costs for a variety of specified objects or purposes. The Board should fund reserves appropriately, monitor reserve amounts and use them as intended for the related expenditures. When the Board establishes reserve funds, it is important that it develop a plan for funding the reserves, determining how much should be accumulated and how and when the funds will be used to finance the related costs. Such a plan should guide the Board in accumulating and using reserve funds and would help inform District residents about how District resources will be used.

While the Board and District officials reported fund balance levels in accordance with RPTL, District officials annually appropriated fund balance toward the subsequent year's budget, of which not all of the amounts were used because the Board and District officials consistently overestimated appropriations. When the appropriated fund balance that was not needed to finance operations is included in unrestricted fund balance, the District's recalculated unrestricted fund balance during the three years ranged from approximately $2 million (9 percent) to $2.2 million (11 percent), exceeding the statutory limit. This trend is projected to continue through 2015-16 based on our review of the current budget.

The Board and District officials also have not properly managed four reserves that appear to be overfunded or contain funds that are improperly restricted by approximately $7.6 million, which is

[2] Fund balance is the cumulative residual resources from prior years.

approximately 35 percent of 2015-16 budgeted appropriations.[3] In addition, District officials consistently budgeted for expenditures that could have been paid for with reserve funds. Although unrestricted fund balance continued to increase through June 30, 2015, District officials continued to increase the tax levy every year. Had District officials maintained the same tax levy as in 2012-13, taxpayers could have realized approximately $720,000 in cumulative savings. As a result, District officials repeatedly missed opportunities to reduce taxes.

Budgeting and Fund Balance

The Board and District management are responsible for developing realistic estimates of revenues, appropriations and the use of fund balance in the annual budget as well as ensuring that the amount of unrestricted fund balance is in compliance with RPTL. Accurate budget estimates help ensure that the levy of real property taxes is not greater than necessary.

We compared the District's budgeted revenues and appropriations with actual results of operations from July 1, 2012 through June 30, 2015 and found that the Board and District officials did not consistently ensure certain budget estimates were reasonable.

Figure 1: Budget vs. Actual Revenues and Expenditures

	2012-13	2013-14	2014-15
Estimated Revenues[a]	$17,780,000	$18,500,000	$18,920,000
Actual Revenues	$18,090,000	$18,780,000	$19,070,000
Variance	$310,000	$280,000	$150,000
Appropriations	$19,860,000	$20,530,000	$21,120,000
Actual Expenditures[b]	$18,430,000	$18,810,000	$19,360,000
Variance	$1,430,000	$1,720,000	$1,760,000
Operating Deficit	($340,000)	($30,000)	($290,000)

[a] Excludes appropriated fund balance
[b] Excludes unbudgeted transfers out

While the District generally accurately estimated revenues, we found that certain budgeted appropriations were consistently overestimated. As a result, the District, on average, overestimated appropriations by approximately $1.6 million (8 percent) annually, predominantly in the following categories: instruction ($829,000, or 9 percent), retirement contributions ($269,000, or 16 percent), pupil transportation ($179,000, or 16 percent) and health insurance ($177,000, or 7 percent).

We also analyzed the 2015-16 budgeted revenues and appropriations

[3] The reserves are as follows: debt ($3.7 million), employee benefit accrued liability ($2.3 million), unemployment insurance ($1.1 million) and workers' compensation ($500,000).

in comparison with the last three completed fiscal years of actual results and project a similar trend to continue. As a result, the District is projected to end 2015-16 with revenues reasonably estimated and appropriations overestimated by approximately $1.5 million, or 7 percent of total budgeted appropriations.

The District reported unrestricted fund balance within the 4 percent limitation in all three years of our audit period.

Figure 2: Unrestricted Fund Balance at Year-End

	2012-13	2013-14	2014-15
Beginning Fund Balance	$9,020,000	$8,680,000	$8,490,000
Add: Operating Surplus/(Deficit)	($340,000)	($30,000)	($290,000)
Less: Unbudgeted Transfers Out	$0	$160,000	$100,000
Ending Fund Balance	$8,680,000	$8,490,000	$8,100,000
Less: Restricted Fund Balance	$6,400,000	$6,190,000	$5,910,000
Less: Encumbrances	$60,000	$60,000	$110,000
Less: Appropriated Fund Balance for the Ensuing Year	$1,400,000	$1,400,000	$1,220,000
Unrestricted Fund Balance at Year-End	$820,000	$840,000	$860,000
Ensuing Year's Budget	$20,530,000	$21,120,000	$21,440,000
Reported Unrestricted Fund Balance as a Percentage of Ensuing Year's Budget	4%	4%	4%

However, as illustrated in Figure 3, when the unused appropriated fund balance is included in unrestricted fund balance, the District actually exceeds the limit in all three years by amounts ranging from approximately $2 million (9 percent) to $2.2 million (11 percent).

Figure 3: Unused Fund Balance

	2012-13	2013-14	2014-15
Unrestricted Fund Balance at Year-End	$820,000	$840,000	$860,000
Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget	$1,370,000	$1,110,000	$1,140,000
Recalculated Unrestricted Fund Balance	$2,190,000	$1,950,000	$2,000,000
Recalculated Unrestricted Fund Balance as a Percentage of Ensuing Year's Budget	11%	9%	9%

In addition, the Board and District officials continued to increase taxes despite having sufficient resources to fund ongoing operations without an increase.[4] For example, we estimated the District's fund balance if the tax levy had not been increased during the last three years and instead remained at the same level as in 2012-13.[5] Had District officials maintained the same tax levy as in 2012-13, taxpayers could have realized approximately $720,000 in cumulative

[4] For the period 2012-13 through 2015-16, the tax levy was increased by a total of approximately $335,000.

[5] The tax levy in 2012-13 was $7.5 million. In 2015-16 the levy had increased to $7.8 million.

savings. District officials have increased the tax levy for 2015-16 by an additional 1 percent, or approximately $88,000.[6] We compared the 2015-16 budget with the last three completed fiscal years to develop projections of fund balance as of June 30, 2016. The District is projected to experience an operating deficit of approximately $80,000 in 2015-16 while the budget includes an appropriation of fund balance to finance an operating deficit of approximately $1.2 million.

Reserves

School districts may establish reserve funds to finance a variety of objects or purposes but must do so in compliance with statutory requirements. When districts establish reserves for specific purposes, it is important that they develop a formal written plan or policy for how to fund the reserves, how much should be accumulated in the reserves and when the funds will be used to finance related costs. Such a plan serves to guide districts in accumulating and using reserved funds and to inform district residents about the use of their tax money, thereby increasing transparency. 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 related expenditures.

As of June 30, 2015, the District reported five reserves in the general fund totaling approximately $5.9 million[7] and a debt reserve in the debt service fund totaling approximately $3.7 million. We analyzed the reserves to ensure they were properly established, were reasonably funded and adhered to the statutory requirements. We found that the District properly established all five of the general fund reserves and reasonably funded the retirement contribution and capital reserves. However, the remaining three general fund reserves are overfunded. We also found that the debt reserve was not properly funded or maintained.

<u>Employee Benefit Accrued Liability Reserve (EBALR)</u> – General Municipal Law (GML) authorizes school districts to create this reserve to fund the cash payment of accrued and unused sick, vacation and certain other accrued but unused leave time owed to employees when they separate from school district employment. To be funded from this reserve, the accrued and unliquidated benefits must be due and payable to the employee upon separation from service. The Board is responsible for ensuring that the balance in the EBALR is adequately supported by documentation showing the monetary value of accrued leave time due as cash payments to employees upon separation from service.

[6] The District did not exceed its tax cap limit.

[7] The reserve balances as of June 30, 2015 were as follows: employee benefit accrued liability ($3.2 million), unemployment insurance ($1.1 million), retirement contribution ($600,000), capital ($550,000) and workers' compensation ($500,000).

Our Office previously performed an EBALR certification that verified that the District had an excess funding of $2.8 million as of June 30, 2013. After the certification, District officials reduced the EBALR by $657,500 during 2014-15 and used these funds toward general fund operations. As of June 30, 2015, the EBALR balance was approximately $3.2 million. We reviewed the current compensated absences calculation and supporting documentation and determined that the EBALR is currently overfunded by $2.3 million as of June 30, 2015.

Unemployment Insurance Reserve – GML authorizes the establishment of this reserve to reimburse the New York State Unemployment Insurance Fund for payments made to claimants. This reserve had a reported balance of $1.1 million as of June 30, 2015, the same balance the District has retained throughout our audit period, and is overfunded. The District incurred unemployment costs totaling $50,828 from 2012-13 through 2014-15. Instead of appropriating funds from this reserve for the costs, District officials budgeted for and paid these expenditures from the general fund as routine operating costs. If unemployment costs continue to average $17,000 per year, the reserve at its current level of funding would last for more than 60 years, assuming no taxes were levied for this purpose. As such, the current balance in this reserve is significantly overfunded.

Workers' Compensation Reserve – GML authorizes the establishment of this reserve to pay compensation and benefits, medical, hospital or certain other expenses of administering a self-insured workers' compensation program. The District is a participant in the Genesee County self-insurance workers' compensation plan. The District reported approximately $500,000 in this reserve as of June 30, 2015. The District appropriated funds totaling approximately $31,000 from this reserve during our audit period for related expenditures which averaged approximately $92,000 annually. The District has annually budgeted for and paid for the remainder of these expenditures from the general fund. Therefore, we question the need for this reserve, and at its current level, which is in excess of five years of average expenditures, it is significantly overfunded.

Debt Reserve – Unexpended bond proceeds from completed capital projects and related interest income earned on these funds must be used to help finance the related debt service costs.[8] Resources restricted in a debt reserve for the payment of debt service should be reported in the debt service fund.

[8] See New York State Local Finance Law

The District reported a debt reserve in the debt service fund of approximately $3.7 million as of June 30, 2015. District officials provided documentation which indicated that the majority of the funds in this reserve, totaling $2.5 million, came from the general fund. These funds should not be restricted in the debt reserve. The debt reserve held approximately $5 million at the beginning of our audit period. Annually, the District apportions on average $425,000 from this reserve towards the District's total annual debt principal and interest payments, which average approximately $2 million. The District annually budgets for and subsequently transfers approximately $1.7 million each year from the general fund to the debt reserve to fund the remaining amount of debt principal and interest payments that are paid out of the debt service fund. As districts are not allowed to establish a debt reserve for any other purpose except those mandated by statute, the money remaining in this reserve is being improperly retained.

Finally, the District does not have a Board-adopted policy to communicate to residents the purpose of the reserve funds and optimal funding levels and conditions under which the funds will be used or replenished. Also, if the District intends to continue to levy taxes to pay for expenditures that could have been paid for with reserve funds, we question the purpose of maintaining the reserves.

Recommendations

The Board and District officials should:

1. Develop realistic estimates of appropriations and the use of fund balance in the annual budgets to avoid raising more real property taxes than necessary.

2. Develop a written policy that indicates the amount of funds to be reserved, how each reserve will be funded and when the balances will be used to finance related costs.

3. Review all reserves at least annually to determine if the amounts reserved are necessary and reasonable and use the excess amounts in reserve funds, in accordance with applicable statutory provisions, in a manner that benefits the taxpayers.

4. Return money improperly maintained in the debt reserve to the general fund as unrestricted fund balance. Any money that can be documented to be properly included in the debt reserve should be used only to pay related debt service.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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Matthew Calderón
Superintendent

Linda Greig
School Accountant

Michael J. Nuwer
Director of Facilities

RESPONSE TO OSC AUDIT REPORT

April 26, 2016

To whom it may concern,

The Pembroke Board of Education and District Officials have a long-standing history of providing a solid education for our children, coupled with responsible tax levy increases. Whether it is academic achievement or fiscal management, our intent is to continuously improve on both fronts regardless of how successful we already are. Therefore, we are thankful for the Office of the State Comptroller's audit, which will provide the opportunity for us to enhance our already sound budgeting practices. As stated in the audit report, the audit addressed the question, "Does the District properly manage fund balance and reserves in accordance with statutes?" We are pleased that the audit found that we "reported fund balance levels in accordance with Real Property Tax Law." Despite this truth, we understand the need for the Comptroller's Office to be as scrutinizing as possible, which resulted in a number of very particular findings for needed improvement. We are thankful there were no findings of fraud or illegal wrongdoing on the part of any individuals, and it will be easy to implement the recommendations given in the audit report. Furthermore, we are pleased to provide additional information below to underscore how **our fiscal practices have minimized tax increases and protected educational programs, despite the implementation of the state's Gap Elimination Adjustment (GEA) that held back state aid from our district, up to a whopping $2.4M each year since 2010!**

See Note 1 Page 14

BUDGETING AND FUND BALANCE

For the past 28 years, the District's budgeting practices have factored in the preservation of fund balance in order to provide our taxpayers stability, consistency, and predictability. To adopt a budget wherein the sum of total revenues plus total fund balance is exactly the same as total expenditures would result in no remaining fund balance to offset unexpected increases to expenditures and/or unexpected decreases to revenue (such as the GEA). This would result in relying solely on increasing taxes, spending down reserves, and even worse – cutting educational programs to bridge future gaps, which is far from optimal. **Our approach of preserving fund balance permitted the District to maintain low tax levy increases *even prior to the Tax Cap legislation*, while maintaining solid educational programs.** (Over the last 4 years, the District has averaged a tax increase of 1.6% per year while CPI has averaged 2.1% over the same period of time, and our budgets have passed with a 73%-79% approval rate. Since 2010, we saved $3.3M in salaries alone by cutting numerous personnel, without hurting educational programs.)

"In partnership with the community, the Pembroke Central School District is committed to knowing each individual student's interests, needs, and desires in order to prepare all students for graduation, with the knowledge, skills, and attitudes necessary to lead productive lives."

The District is aware and agrees that preservation of fund balance must be done in a reasonable manner. Unfortunately, the scope of the audit report only covers a three-year timeframe, and consequently, the report inaccurately characterizes the trend in regard to our use of fund balance. In actuality, the Board and District Officials have decreased the amount of appropriated fund balance from $2.4M down to $1.2M since the 2010-11 School Year, and that trend to decrease it will continue next year when it is reduced to $1.1M. **The reality is that the District's conservative estimate of revenues and expenses has consistently stabilized taxes and resulted in low levels of tax increases, rather than creating a fluctuating tax rate that would burden our taxpayers…** not to mention that we maintained our #1 position for Academic Achievement in the Eastern Tier of WNY (Business First).

See Note 2 Page 14

While the report offers the opinion that the District has overtaxed the community, the Board and **District Officials have actually kept tax levy increases averaging a low 1.6%, and they used excess funds to benefit taxpayers by applying them to the remaining $16M of outstanding capital project debt** and to a Capital Reserve Fund. The debt will be paid back through 2025, with budgeted payments decreasing, thereby **reducing the local share and providing taxpayer relief**, and funds transferred to the capital reserve will reduce or fully cover the local share of costs for any future capital project.

To summarize the District's position for this section of the report, the economic environment we live in requires conservatism. It is only prudent to protect the finances of the District due to the uncertainty of the financial condition of New York State and the economy as a whole. In February 2015, Governor Cuomo's message to schools was to "hope for the best, but plan for the worst." That is exactly what Pembroke has been doing all along, and despite GEA and other aid reductions, we have been able to continue to thrive academically as a result of our wise budgeting and use of fund balance.

RESERVES

Debt Service Fund:

The audit report states that the District's debt reserve was not properly funded or maintained. However, both the establishment and the funding of the Debt Service Fund were based on the recommendation of the District's independent auditors ***and*** based on guidance from the Comptroller's School Districts' Accounting and Reporting Manual, page 17, which states, "*Debt Service Fund – used to account for and report the accumulation of resources that are restricted, committed, or* ***assigned*** *to expenditure for the payment of principal and interest on long-term debt.*" The District reported all funds in the Debt Service Fund as assigned for the payment of debt, however, a different interpretation has now been clarified by the Comptroller's office. We will comply and continue to budget the payment of debt in a way that continues to protect our taxpayers as we have.

In 2008-09, the District utilized the Debt Service Fund to fund the $22.3M bond obligation for the 2007 voter approved Capital Project. The intent was to segregate the building aid received by the General Fund for the sole purpose of the payment of principal and interest. Each year since its inception, a transfer to the Debt Service Fund was budgeted for an amount approximate to the expected building aid to be received by the state. When excess appropriations were available, additional amounts were transferred to this fund to hedge against future loss of revenue for the building project. In addition, the premise for this action was **to reduce budgeting for these payments in future years, thereby reducing the local share and providing taxpayer relief**. As of June 30, 2015, the District's outstanding bond obligation was $16.5M.

See Note 3 Page 14

The Debt Service Fund has been funded with transfers from the General Fund, bond premium, and interest earnings, but the District has been informed by the OSC that only funds legally required to be in the Debt Service Fund can be accumulated there, and therefore, the District will prepare a multi -year plan to efficiently and responsibly transfer excess funds back to the General Fund in a manner in which to best benefit taxpayers.

EBALR:

This reserve was originally established and funded in response to GASB #45. It was created to maintain the fiscal integrity of the District's long term financial obligation as a result of retiree medical insurance costs. Recognizing that this benefit is not a defined use of this reserve, the District planned to transition these funds to an OPEB trust once such a trust was established by the NYS Comptroller, but that OPEB trust never came to fruition. The District discontinued funding this reserve since 2006-07, other than the statutorily required allocation of interest earnings.

See Note 4 Page 14

The District has benefited from the opportunity given by New York State to release excess EBALR funds and put them to use by appropriating funds from the reserve to help fund the 2011-12 through 2015-16 budgets, after OSC certified excess EBALR funds each of the past four years. However, the District was never instructed to return excess to unrestricted fund balance. After OSC once again certifies the amount of excess funds, School officials will obtain counsel from the School attorney and the State Education department review and discuss the best course of action to optimize the benefit to our taxpayers and students.

Unemployment Insurance Reserve:

This reserve was established in the 1998-99 school year, and the District discontinued funding this reserve since 2003-04, other than the statutorily required allocation of interest. The District will take the necessary steps in June 2016 to transfer the excess funds to the Capital Reserve to offset the local share of a future capital project and minimize any associated tax increases.

Workers Compensation Reserve:

This reserve was also established in 1998-99, and the District discontinued funding this reserve since 2004-05, other than the statutorily required allocation of interest since. Over the last three years, workers' compensation insurance expenses have averaged $105K per year. The use of this and other reserves were not taken advantage of in order to maximize the use of EBALR. With EBALR funds now being unavailable to help fund future budgets, the District will plan to utilize this reserve as appropriate.

See Note 5 Page 14

Again, we thank the Comptroller's Office for offering its opinions and recommendations, which will provide us the opportunity to enhance our already sound budgeting practices!

Respectfully,

Matthew E. Calderón
Superintendent

Linda A. Greig
School Accountant

"In partnership with the community, the Pembroke Central School District is committed to knowing each individual student's interests, needs, and desires in order to prepare all students for graduation, with the knowledge, skills, and attitudes necessary to lead productive lives."

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

Although the District reported unrestricted fund balance that complied with the 4 percent limit, when unused appropriated fund balance was added back, the recalculated unrestricted fund balance exceeded the statutory limit each year.

Note 2

To clarify, while the District has reduced the amount of fund balance appropriated during our audit period, the District also routinely overestimated appropriations and, consequently, unrestricted fund balance has remained constant.

Note 3

While we recognize the use of the debt service fund to record debt payments, District officials had an additional accumulation of funds that were not legally required to be restricted in the debt reserve.

Note 4

The Office of the State Comptroller recognizes the financial burden facing government entities as it relates to other post-employment benefits and has proposed legislation to the New York State Legislature to address this issue, available at http://osc.state.ny.us/legislation/2015-16/oscb_opeb_201516.htm.

Note 5

We calculated this average based on actual expenditures during the three year period, July 2012 through June 2015, which totaled approximately $92,000.

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 financial management practices.
- We reviewed the Board's meeting minutes and the District's policies and procedures regarding financial management, including annual budgets, Board oversight and responsibilities and establishing, funding and maintaining reserves.
- We analyzed the most recent three fiscal years (2012-13, 2013-14 and 2014-15) of budgeted appropriations and revenues and compared them to actual results. We calculated if there was an operating surplus or deficit for each of these years and identified significant variances.
- We reviewed the 2015-16 budget and compared it to the most recent three fiscal years of budgets. We documented significant trends and analyzed for projected future trends.
- We compared the District's fund balance for the three most recent fiscal years to each ensuing year's budget to calculate unrestricted fund balance as a percentage in comparison with the statutory limit. We also recalculated unrestricted fund balance by including appropriated fund balance that was not needed as a financing source.
- We identified all reserves in place during the last three fiscal years and requested documentation from District officials to verify that each reserve was established and maintained properly and to determine if the reserve balances were reasonable. We extended our review of the funding of the debt reserve back to July 1, 2010.
- We forecasted the amount of unrestricted fund balance that would be available if the District did not increase the tax levy during the last three fiscal years but maintained the same amount as the levy in 2012-13.

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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