Office of the New York State Comptroller

Division of Local Government & School Accountability

Hannibal Central School District

Financial Condition

Report of Examination

Period Covered:

July 1, 2015 – August 31, 2016

2017M-23

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

April 2017

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 Hannibal Central School District, entitled Financial Condition. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

Office of the State Comptroller
Division of Local Government
and School Accountability

Introduction

Background

The Hannibal Central School District (District) is located in Cayuga and Oswego Counties. The District is governed by the Board of Education (Board), which is composed of seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (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 three schools with approximately 1,405 students and 279 employees. The District's budgeted appropriations for the 2016-17 fiscal year are $31,633,500, which are funded primarily with State aid and real property taxes.

Objective

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

- Did the Board adopt reasonable budgets and adequately manage the District's financial condition?

Scope and Methodology

We examined the District's financial condition for the period July 1, 2015 through August 31, 2016. We extended our audit scope back to July 1, 2013 to analyze financial trends in prior years.

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 B 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. Except as indicated in Appendix A, District officials generally agreed with our recommendations and indicated they plan to initiate corrective action. Appendix B includes our comments on issues District officials raised in their response.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Financial Condition

The Board, Superintendent and Business Official are responsible for making sound financial decisions in the best interest of the District, the students they serve and the residents who fund the District's programs and operations. Sound budgeting practices based on accurate estimates of revenues and expenditures, along with prudent fund balance management,[1] help ensure the real property tax levy is not greater than necessary. New York State Real Property Tax Law limits the amount of unrestricted fund balance that a school district can retain to no more than 4 percent of the ensuing fiscal year's budget. In addition, the Board should prepare multiyear financial plans that project future revenues, expenditures and fund balance amounts and set long-term priorities and goals.

The Board and District officials did not develop reasonable budgets or effectively manage the District's financial condition to ensure that the general fund's unrestricted fund balance was within the statutory limit. District officials overestimated operating expenditures in each of the last three fiscal years totaling about $7.6 million (9 percent) and appropriated nearly $5 million in fund balance, 97 percent of which was not needed to fund operations. Further, District officials incorrectly reported the District's current liability for compensated absences on its balance sheet. This understated the District's unrestricted fund balance by an average of about $355,000 in each of the last three fiscal years.

After adding back the unused appropriated fund balance and incorrectly reported compensated absences liability, the District's recalculated unrestricted fund balance annually averaged about 12.4 percent of the ensuing years' budgetary appropriations, which is 8.4 percentage points more than the statutory limit. Finally, the Board has not adopted a long-term financial or capital plan evaluating and addressing the District's financial and capital needs.

Budgeting and Fund Balance

The Board is responsible for preparing and presenting the budget to District residents for vote. It is essential that the Board prepares budgets based on historical or known trends. In preparing the budget, the Board must estimate what the District will spend and what it will receive in revenue (e.g., State aid), how much fund balance will be available at fiscal year-end (some or all of which may be used to fund

[1] Fund balance represents resources remaining from prior fiscal years. The portion of fund balance used to fund budget appropriations is referred to as appropriated fund balance.

the ensuing year's appropriations) and, to balance the budget, what the expected tax levy will be. Accurate estimates help ensure that the levy of real property taxes is not greater than necessary.

We compared budgeted appropriations with actual expenditures for fiscal years 2013-14 through 2015-16 and found that the Board overestimated appropriations by over $7.6 million (9 percent), as shown in Figure 1. Actual revenues were generally consistent with budgeted estimates over the same period.

Figure 1: Overestimated Appropriations

	Appropriations	Actual Expenditures	Overestimated Appropriations	Percentage Overestimated
2013-14	$30,092,500	$27,652,583	$2,439,917	9%
2014-15	$30,660,000	$28,448,814	$2,211,186	8%
2015-16	$31,633,500	$28,652,475	$2,981,025	10%
Total	**$92,386,000**	**$84,753,872**	**$7,632,128**	**9%**

The majority of the budget variances during this three-year period were due to overestimates related to teacher salaries by $1.7 million (9 percent), health insurance by $1.6 million (17 percent), serial bonds principal and interest by $1.1 million (10 percent), operation of plant by $732,000 (25 percent), Employees' Retirement System by $450,000 (42 percent), Teachers' Retirement System by $424,000 (10 percent) and Social Security by $264,000 (11 percent). District officials told us that these overestimates often serve to offset potential expenditure increases that may occur after the budget is adopted. While we acknowledge that some expenditures are often more difficult than others to accurately estimate, some of the Board's overestimates were avoidable. For example, teacher salaries are set by collective bargaining agreements and do not fluctuate between the time estimates are prepared and the budget is adopted. Therefore, the Board should be able to more accurately estimate this appropriation.

Because annual budgets significantly overestimated appropriations, it appeared that the District needed to both increase its tax levy and use appropriated fund balance to close projected budget gaps. The Board increased the real property tax levy by a total of $249,000 (4 percent) from 2012-13 through 2015-16 and appropriated an average of $1.7 million in fund balance in the 2013-14 through 2015-16 budgets. When fund balance is appropriated for the ensuing year's budget, the expectation is that there will be a planned operating deficit equal to the amount of fund balance that was appropriated. However, rather than generating planned operating deficits, the District realized cumulative operating surpluses totaling more than $2.5 million over this three-year period (Figure 2). Further, the District's reported unrestricted fund balance at year-end exceeded the 4 percent statutory limit in each of the past three years.

Figure 2: Unrestricted Fund Balance at Year-End

	2013-14	2014-15	2015-16
Total Beginning Fund Balance[a]	$9,287,075	$10,944,736	$10,803,487
Plus: Operating Surplus/(Deficit)	$1,659,308	($141,250)	$1,009,378
Total Ending Fund Balance	$10,946,383	$10,803,486	$11,812,865
Less: Restricted Fund Balance[b]	$6,531,724	$7,234,990	$8,022,737
Less: Appropriated Fund Balance for the Ensuing Year	$1,583,070	$1,658,805	$1,658,805
Less: Encumbrances	$214,216	$540,416	$311,363
Unrestricted Fund Balance at Year-End	$2,617,373	$1,369,275	$1,819,960
Ensuing Year's Budget	$30,092,500	$30,660,000	$31,633,500
Reported Unrestricted Fund Balance as a Percentage of Ensuing Year's Budget	8.7%	4.5%	5.8%

[a] Includes prior period adjustments
[b] Includes reserve for compensated absences, capital reserve, retirement contribution reserve, unemployment reserve and workers' compensation reserve

By including appropriated fund balance in the budgets that was not used, the Board made it appear that the District had less unrestricted fund balance than it actually had. The Board appropriated about $5 million[2] in fund balance as a financing source for the 2013-14 through 2015-16 annual budgets even though it only needed about $141,000 (3 percent). In addition, District officials incorrectly reported liabilities for compensated absences, which further understated the reported fund balance.

The Government Accounting Standards Board requires local governments to measure and report liabilities for compensated absences.[3] In measuring the liability, employers must take into account benefits that employees are not yet entitled to, but are likely to qualify for in the future. The liability for compensated absences has current and long-term portions. The current portion represents the amount that is normally liquidated with available financial resources and includes amounts necessary to pay for unused leave balances for employees who will retire by fiscal year end. The long-term portion is to be paid in future years and is reported in the schedule of long-term liabilities. It is important to accurately report the current portion of the liability because the expenditure is recognized at the same time the liability is recognized, which in turn decreases fund balance.

We reviewed the current liability for compensated absences reported in the general fund for fiscal years 2013-14 through 2015-16 and

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[2] The District appropriated $1,797,942 in fund balance for 2013-14, $1,583,070 for 2014-15 and $1,658,805 for 2015-16.

[3] Compensated absences commonly refer to paid time off available to employees in connection with vacation and sick leave, as well as comparable types of compensated absences (such as personal and holiday leave). Compensated absences do not include retirement incentives, health insurance for retirees or other post-employment benefits, pension plan contributions or most other employment-related contractual obligations.

found that this liability was incorrectly calculated and reported. Rather than pay eligible employees directly for unused leave upon retirement, the District calculates the dollar value of each employee's unused leave time and records that amount in an "employee bank." The District then applies a portion of this bank each year to pay an employee's share of health, dental and vision insurance premiums until the employee's banked amount is reduced to zero. Each year, as eligible employees retire, the District calculates the total employee bank amount for these employees and records this amount as a current liability on the general fund balance sheet. However, since the District pays both the employer and employee share of health, dental and vision insurance premiums from budgeted appropriations each year and the expenditures are not expected to be liquidated with current available resources, none of these banked amounts qualify as a current District liability. Rather, the total of these employee banks constitutes other post-employment benefits, which is a long-term liability not reported on the general fund balance sheet.

When unused appropriated fund balance and incorrectly reported current liabilities for compensated absences funds are added back to the reported unrestricted fund balance, the District's recalculated unrestricted fund balance exceeded the statutory limit by 6.9 to 10.5 percent (Figure 3). Given this excessive fund balance, the Board has levied more taxes than necessary to sustain District operations.

Figure 3: Recalculated Unrestricted Fund Balance

	2013-14	2014-15	2015-16
Total Unrestricted Funds at Year-End	$2,617,387	$1,369,275	$1,819,960
Add: Incorrectly Reported Compensated Absences	$292,406	$328,301	$445,475
Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget	$1,441,820	$1,658,805	$1,658,805[a]
Total Recalculated Unrestricted Funds	$4,351,613	$3,356,381	$3,924,240
Recalculated Unrestricted Funds as Percentage of Ensuing Year's Budget	14.5%	10.9%	12.4%

[a] We estimated the amount of unused appropriated fund balance for the 2015-16 fiscal year because the year-end operating results for the current year (2016-17) are unknown at this time. Based on projected 2016-17 year-end operating results, as provided to us by District officials, none of the appropriated fund balance will be used in the 2016-17 fiscal year to finance operations.

In addition, the District has reported $1.1 million in the debt service fund for the last three fiscal years. This fund is used to account for and report the accumulation of resources that are set aside for paying principal and interest on long-term debt. For example, a debt service fund must be established and maintained to account for the proceeds of a sale of a capital asset with outstanding debt or if State or federal aid is received for a capital improvement for which there is outstanding debt. These funds must be used to pay principal and interest on outstanding debt associated with these assets.

The majority of the $1.1 million in this fund resulted from a completed capital project which had outstanding debt associated with it. Therefore, these additional funds are required to be used only for paying the debt principal and interest on the outstanding debt. However, rather than use the money in this fund for its intended purpose, District officials have paid the debt-related principal and interest from general fund appropriations each year. Using debt service money for its intended purpose could allow general fund resources to be used for other purposes, including the reduction of real property taxes or funding one-time expenditures.

Multiyear Planning

It is important for District officials to develop multiyear financial and capital plans to estimate the future costs of ongoing services and capital needs. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period. Such plans allow District officials to identify developing revenue and expenditure trends, establish long-term priorities and goals and consider the impact of near-term budgeting decisions on future fiscal years. Multiyear plans also help District officials to assess the merits of alternative approaches (such as appropriating fund balance or establishing and using reserves) to finance operations and capital needs. Any long-term financial plan must be monitored and updated on a continuing basis to provide a reliable framework for preparing budgets and to ensure that information used to guide decisions is current and accurate.[4]

The Board has not developed an effective multiyear financial or capital plan to define how reserves and unrestricted fund balance in the general and debt service funds will be used.

As the District moves forward, formal, well designed long-term plans can assist the Board in making timely and informed decisions about the District's programs and operations and help manage its fund balance.

Recommendations

The Board should:

1. Develop realistic estimates of appropriations and the use of fund balance in the annual budget.

2. Ensure that the amount of the District's fund balance is in compliance with statutory limits and reduce the amount of fund balance in a manner that benefits District residents. Such uses could include financing sources for:

    - Funding one-time expenditures;

[4] See http://www.osc.state.ny.us/localgov/planbudget/ for more information.

- Funding needed reserves;
- Paying off debt; and
- Reducing District property taxes.

3. Ensure that District officials accurately report the District's compensated absences liability.

4. Use the debt service fund money for its intended legal purpose.

5. Develop comprehensive multiyear financial and capital plans to provide a framework for future budgets and guide the District's management of financial condition. These plans should be periodically reviewed and updated as appropriate.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

HANNIBAL CENTRAL SCHOOL DISTRICT

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CHRISTOPHER A. STAATS
SUPERINTENDENT

March 24, 2017

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
Syracuse Regional Office
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428

Dear Ms. Wilcox,

The Hannibal Central School District is in receipt of the Draft Audit Report Financial Condition for the period of July 1, 2015 to August 31, 2016; 2017M-23, prepared by the Office of the State Comptroller. On behalf of the Board of Education and the District administration, we would like to thank the Comptroller's staff for their professionalism and courtesy in conducting their duties associated with this audit. Hannibal Central School District considers every audit a learning experience, or an opportunity to get better at what we do. What we do is manage the District's finances with a focus on instruction while maintaining our financial health. This includes staying within the property tax requirements, operating with efficiency and, like any business, working to have a healthy and financially prudent balance sheet.

The Hannibal Central School District has always welcomed the opportunity to review and strengthen our financial practices and oversight. We have worked diligently over the past several years to update policies, strengthen internal controls, and develop budgets that balance short-term financial priorities with the long-term financial well-being of the District and community. To that end, we have developed and maintained long-term financial projections that guide our decision-making. We communicate clearly and often with the public about our financial strategies, and our annual budget materials seek to provide a transparent and engaging environment.

The State Comptroller's Office auditor spend nearly ten weeks at Hannibal Central School District reviewing our procedures, processes, and policies. Our staff was instructed to answer questions freely and provide her with reports from our financial system and access to any of our records. As expected, the audit did not identify or uncover any instances of fraud, misappropriation of funds, or malfeasances with the School District Financial Management. The scope of the audit was to examine the financial conditions for the period of July 1, 2015 through August 31, 2016. They extended their audit scope back to July 1, 2013 to analyze financial trends in prior years. We work closely with our outside independent auditors and financial advisors to review our financial management practices, oversight procedures, and financial condition. The District has reviewed the Comptroller's findings and recommendations found within the audit and will take corrective action in specific areas. These will be outlined in the Corrective Action Plan that follows.

The routine 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. The audit focused on the District's budgeting, use of appropriated fund balance, and multiyear planning, a topic on which the District and Comptroller's office respectfully have a difference of opinion. The audit report contains a number of conclusions and broad statements that we believe reflect subjective opinions of the Comptroller's Office with respect to the District's financial management, specifically as they relate to financial planning, appropriated fund balance, unrestricted fund balance, and debt service.

See Note 1 Page 16

The draft report contains a few conclusions that, in our viewpoint, are subjective opinion statements by the Comptroller's auditors as related to the District's financial management specifically in the area of budgeting practices. We acknowledge the Comptroller's perspective in this area; however, we believe that our conservative approach to financial management is consistent with our legal authority and our fiscal responsibilities to the taxpayers and educational program. In fact, the Office of the State Comptroller has recognized the District's excellent financial stability for four consecutive years. According to the Comptroller's data from the Fiscal Stress Monitoring System for the fiscal year ending June 30, 2016, the District received a score of 0% (the best score a district can receive), with no designation of fiscal stress, indicating that the district is in good fiscal standing. In the Comptroller's report from the previous three years, the district also received a score of 0% and no designation of fiscal stress. The same report has designated 62 state school districts, 32 of which are in the Upstate NY region, and 3 out of 9 of our component Oswego County Districts, to be in the fiscal stress this year; in other words, they do not have enough money in their fund balance for maximum financial stability. With the Tax Cap, the District can no longer tax its way out of a problem and State Aid to Education being inconsistent the District needs to be fiscally conservative in its fiscal practices.

See Note 2 Page 16

Not using all of the Designated Fund Balance is not illegal nor is it an attempt to overtax our community. Our average annual tax increase for the past 5 years was 1.26%. We have been at or under the tax cap for the past 5 years of its existence.

See Note 3 Page 16

During the scope of the audit conducted, we received our Standard and Poor's Bond Rating report. Our rating is consistent with small rural schools at an **A**. Being a small district with lower than average wealth levels, the bond rating is at its current level due to the strong fund balance of the District and overall strength of the Balance Sheet—our reserves and fund balance. This means the District pays less interest when borrowing money, which lowers the costs to our taxpayers and the State of New York for the cost of capital projects.

During your field office visit, in September 2016, on the New York School Boards Association news segment, Comptroller DiNapoli advised school district to be cautious as the economy is slowing, and school district could face a tighter budget picture next year. This statement, coupled with recent comments and actions regarding the future of State and Federal Educational programming, and a CPI calculation of 1.26%, is why we continue to employ conservative budget practices. Without this philosophy, the potential for another large staff and program reduction exists each year that New York State fails to fund school districts though State aid.

Comptroller Recommendation #1

Develop realistic estimates of appropriations and use of fund balance in the annual budget.

Implementation Plan of Action:

The District accepts the Comptroller's recommendation and the District Administration will build a spending plan based on District goals. It is our position that the District has always prepared realistic budgets, which have not raised property taxes more than necessary and have stayed within the required property tax cap. With that said, in 2016-2017, the Board of Education and District Officials began the process of more closely aligning the school budget to actual expenses, based upon three-year historical trends and based upon a detailed analysis of our students' educational needs.

See Note 3 Page 16

Comptroller Recommendation #2

Ensure that the amount of the District's fund balance complies with statutory limits and reduce the amount of fund balance in a manner that benefits District residents. Such uses could include financing sources for:

a. Funding one-time expenditures
b. Funded needed reserves
c. Paying off Debt

d. Reducing District property taxes

Implementation Plan of Action:

The District agrees with this recommendation and believes that it has historically used surplus funds to fund the reserves, thus minimizing the impact to taxpayers of large purchases, such as new buses and planning for our Facility Improvement Plan. Given the $50 million worth of facility needs identified in our 2015 Building Condition Survey, the Board of Education and District Officials plan on asking the voters of the district to establish a Capital Reserve in May of 2017 to help offset any local taxpayer share for its next Capital Improvement Project. By using reserves, there will be significantly less interest expense over the life of the financing, saving the taxpayers in the years to come.

Comptroller Recommendation #3

Ensure the District officials accurately report the District's compensated absences liability

Implementation Plan of Action:

Although, the District agrees with recommendation, we believe that the District's overall approach of setting aside to be prudent. The District's Compensated Absences have accumulated based on unused sick leave converted by retirees to offset their future share of health insurance. In most Districts, sick leave is paid out when the employee retires. This liability is not part of the Other Post-employment benefit liability calculated by the actuary and recorded as a long-term liability. The District will implement a policy whereby of the full amount of the Compensated Absences is accounted for as a long-term liability. In addition, the balance of the liability and activity will be budgeted through the Employee Benefit Accrued Liability Reserve in the General Fund. The District will appropriate the reserve as the retiree's share of health insurance is paid. The balance of the reserve will be increased as employees retire and have sick leave converted to be used for future health insurance.

With this said, if the District would have implemented this before the recommendation from the OSC took place, the fund balance would not have been 14.5%, 10.9% or 12.4% as indicated on Figure 3, but would have remained at 8.7%, 4.5%, and 5.8% as indicated on Figure 2.

See Note 4 Page 16

Comptroller Recommendation #4

Use the debt service money for its intended legal purposes.

Implementation Plan of Action:

The draft report indicates that the district has $1.1 million in a debt service fund and implies that the District is not using it for its intended purpose. The district disagrees with this statement. The majority of the funds came after 2012, from a litigation

See Note 5 Page 16

settlement and closeout of its latest Capital Improvement Project. While the district has not appropriated any funds from it within the scope of this audit, there is a plan to utilize the funds within the statutory time limit. As indicated with the plan of action for recommendation #2, if the voters approve a Capital Reserve in May 2017, the Board of Education has the authority to move the Debt Service funds to the Capital Reserve to help offset the local share of the local taxpayers.

See Note 5 Page 16

Comptroller Recommendation #5

Develop comprehensive multiyear financials and capital plans to provide a framework for future budgets and guide the District's management of financial condition. These plans should be periodically reviewed and updated as appropriate.

Implementation Plan of Action:

The district has a five-year financial plan that has been reviewed by the Board of Education. Given the fact that this District is dependent on New York State Aid for upwards of 75% of its revenue, long term planning has consisted of maintaining adequate reserves and fund balance in order to meet the many State and Federal mandates required of school districts and to protect the district from reductions in state aid that have been a reality in the past.

Beginning with the 2017-2018 year, the District Officials will present to the Board, for adoption, a multiyear financial and capital plan for a three- to five- year period. This plan will address the use of fund balance and reserves, and will be reviewed by the Board on an annual basis.

In conclusion, we appreciate and respect the comments and recommendations in the draft report by the staff of the State Comptroller's office. The Hannibal Central School District and its Board of Education believe that our current budgeting and financial management practices will allow us to exhibit long-range fiscal responsibility to our community and will ensure the integrity of our program and physical space. We would like to thank the Comptroller's Office for their thoroughness and professionalism over the time that they spent at Hannibal.

Sincerely,

Michael LaFurney
President, Board of Education

Christopher A. Staats
Superintendent of Schools

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

All conclusions in this report are based on the data collected from the District and analyzed during the audit. With respect to the District's financial management, specifically regarding financial planning, appropriated fund balance, unrestricted fund balance and debt service, our conclusions and statements are based on pertinent laws, publications and good business practices.

Note 2

The Office of the State Comptroller's Fiscal Stress Monitoring System provides an early warning system of fiscal stress to local governments and school districts by examining their financial information and aspects of their external environment. Based on the fiscal score, the system assigns one of three categories of stress or the "no designation" category if the entity's score does not meet the threshold of stress. The "no designation" category the District received does not indicate the District's level of fund balance is reasonable. The category indicates that the District does not meet the threshold of fiscal stress.

Note 3

The Board appropriated about $5 million in fund balance for the 2013-14 through 2015-16 annual budgets even though it needed about $141,000 (3 percent). We do not express the opinion that appropriated fund balance should be fully depleted annually. However, we recommend that the District adopt realistic budgets to avoid the further accumulation of fund balance.

Note 4

Had the District previously implemented its revised approach to increase the Employee Benefit Accrued Liability Reserve for the sick leave converted to cover future health insurance costs during the 2013-14 through 2015-16 fiscal years, the recalculated unrestricted funds would not have remained at the levels indicated in Figure 2. The District's recalculated unrestricted funds as a percentage of the ensuing year's budget would have been 13.5 percent, 9.9 percent and 11.0 percent, respectively, due to the more than $4.7 million in appropriated fund balance not used.

Note 5

A debt service fund is used to account for and report the accumulation of resources that are set aside for paying principal and interest on long-term debt. The District has reported over $1 million in cash in the debt service fund since the 2012-13 fiscal year but did not use any of this money during 2013-14, 2014-15 or 2015-16 to pay the principal or interest on the outstanding indebtedness. Furthermore, District officials indicate that if the voters approve the establishment of a capital reserve in May 2017, the Board plans to move the debt service funds to the capital reserve. However, the District is statutorily required to apply excess bond proceeds to the payment of principal and interest on the related bonds, so it may not use these moneys to finance a capital reserve. Instead, the District should use the debt service funds to pay the principal and interest on the indebtedness, which could then allow general fund resources to be used to finance the capital reserve.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To accomplish our audit objective, our examination included the following procedures:

- We interviewed District officials to gain an understanding of the budget process and to determine whether the District adopted multiyear financial plans. We reviewed the Board minutes to determine the reports provided to the Board. We reviewed the financial information provided to the Board.

- We compared the revenues and appropriations in the original adopted budgets to the actual revenues and expenditures in the general fund for fiscal years 2013-14 through 2015-16 to determine whether budgeted revenues and appropriations were realistic.

- We obtained and reviewed the District's 2016-17 adopted budget and compared it to prior years' results of operations to determine whether budgeted appropriations were reasonable and based on historical data.

- We reviewed actual expenditures for fiscal years 2013-14 through 2015-16 to determine which expenditure types contributed the most to the District's budget-to-actual variances. In addition, we compared general fund estimated revenues and appropriations in the current 2016-17 budget with the budgets for the previous fiscal years. We interviewed District officials to identify reasons for significant budget variances.

- We analyzed the use of appropriated fund balance in the general fund for fiscal years 2013-14 through 2015-16. We also compared the unrestricted fund balance to the next year's budgeted appropriations to determine whether the District was within the statutory 4 percent limitation.

- We reviewed tax warrants to identify the trend in the real property tax levy for the fiscal years 2013-14 through 2016-17.

- We reviewed reserve balances for fiscal years 2013-14 through 2016-17 and compared them to related expenditures during the same time period, when applicable, to evaluate the reasonableness of reserve amounts.

- We reviewed the current liability for compensated absences reported by the District for fiscal years 2013-14 through 2015-16.

- We reviewed activity in the debt service fund to determine if it was being used according to statute.

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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APPENDIX E

OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

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