

State of New York
Office of the State Comptroller
NOTICE

Notice is hereby given that the fiscal affairs of the Kendall Central School District for the period beginning on July 1, 2007 and ending on November 19, 2010 have been examined by the Office of the State Comptroller and that the report of examination prepared by the Office of the State Comptroller has been filed in my office where it is available as a public record for inspection by all interested persons. Pursuant to Section 35 of the General Municipal Law, the Kendall Central School Board of Education has authorized the preparation of a written response to the report of examination prepared by the Office of the State Comptroller and has filed such response in my office as a public record for inspection by all interested persons not later than September 14, 2011.

Julie Christensen
Superintendent of Schools

OFFICE OF THE NEW YORK STATE COMPTROLLER



DIVISION OF LOCAL GOVERNMENT
& SCHOOL ACCOUNTABILITY

Kendall Central School District Financial Condition

Report of Examination

Period Covered:

July 1, 2007 — November 19, 2010

2011M-18



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2011

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

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

Respectfully submitted,

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

Introduction

Background

The Kendall Central School District (District) is located in Orleans and Monroe Counties and covers approximately 89 square miles. The District is governed by the Board of Education (Board) which comprises five elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

The District enrolls 828 students and employs 160 instructional and non-instructional staff as of October 2010. For the fiscal year ended June 30, 2010, the general fund's total expenditures were approximately \$15 million, which were funded primarily with State aid, real property taxes, sales tax, and grants.

Objective

The objective of our examination was to review the District's financial condition and internal controls over short-term financing. Our audit addressed the following related questions:

- Does the Board properly manage District finances by properly establishing and maintaining reserve funds and by maintaining fund balance levels in accordance with statute?
- Do District officials periodically analyze cash flow and properly issue appropriate amounts of short-term financing if needed?

Scope and Methodology

We examined District finances for the period July 1, 2007 to November 19, 2010.

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. Except as noted in their response, District officials generally agreed with our recommendations and indicated they would take corrective action. Appendix B includes our comments on issues raised in the District's response.

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

Financial Condition

A school district's financial condition is a factor in determining its ability to provide educational services for students within the district. The responsibility for accurate and effective financial management rests with the Board, the Superintendent, and the District Treasurer. District officials must manage the District's finances in a prudent manner, accurately depicting and reporting the financial activity of the District while also using available resources to responsibly lower the tax burden of its residents.

The District has accumulated more than \$7.85 million¹ in excess funds that should be used to benefit taxpayers. As of June 30, 2010, the District overstated certain liabilities by \$6 million and overfunded certain reserves by a total of \$1.85 million. These actions reduced the reported unreserved, unappropriated fund balance, which is subject to a limit pursuant to Real Property Tax Law.² Had the liabilities been properly accounted for and the reserves reasonably funded, the combined total of \$7.85 million would have increased the District's actual unreserved, unappropriated fund balance to \$8.5 million at the end of the 2009-10 fiscal year, representing 52 percent of the ensuing year's appropriations of \$16.2 million.

In addition, we found that District officials borrowed money the District did not need in amounts ranging from \$1.5 million to \$2 million, and incurred associated debt issuance and interest costs totaling almost \$195,000, during the last three completed fiscal years.

Liabilities

Our review of certain liabilities reported by the District in its financial statements found a pattern of overstatement that reduced the reported amount of unreserved, unappropriated fund balance. We identified approximately \$6 million in overstated liabilities as of June 30, 2010. Had these liabilities been properly valued and reported in compliance with generally accepted accounting principles (GAAP), the unreserved, unappropriated fund balance at June 30, 2010 would have exceeded the statutory limit by approximately \$6 million.

¹ Comprising \$6 million in overstated liabilities, \$650,000 in unemployment insurance reserve funds, \$450,000 in tax certiorari reserve funds, and \$750,000 in retirement contribution reserve funds

² Previously, unreserved, unappropriated fund balance could not exceed 2 percent of the ensuing year's appropriations. At June 30, 2007, the limit was 3 percent of 2007-08 appropriations, increasing at June 30, 2008 to 4 percent of 2008-09 appropriations and continuing at 4 percent for years thereafter.

Accrued Liabilities — Accrued liabilities are expenditures of the current fiscal year for costs incurred and payable in the following fiscal year.³ Plans for purchases that the District intends to make do not create liabilities and therefore should not be reported as accrued liabilities.

The District reported a \$3.3 million accrued liability in the general fund at June 30, 2010. We reviewed documentation provided by District officials in support of the amount reported and determined that \$3.3 million should not have been accrued as a current liability in the general fund. For example, the District incorrectly accrued approximately \$2 million for potential future capital projects at June 30, 2009 and again at June 30, 2010. This amount merely represented an expectation of future costs; no work had been performed. There were no specifications, bids, or measures to actually perform any construction. District officials simply recorded a liability with no support for the entry. Further, \$791,000 was included in the reported accrued liabilities account, as of June 30, 2010, for “other post-employment benefits.” However, the District pays health insurance premiums for both current employees and retirees on a monthly basis. Therefore, no current liability exists at fiscal year-end for future premium payments. For the remaining amount reported as accrued liabilities – comprising various items including approximately \$152,000 for parking lots/road upkeep, \$64,000 for health insurance, \$50,000 for special education student requirements, and \$42,000 for the marching band – District officials were unable to provide adequate documentation to demonstrate that these items were current liabilities.

Due to Other Funds — School districts use this account to reflect inter-fund cash advances that have been made to address cash flow needs. The amount reported by the District in this liability account was \$900,437 at June 30, 2010. Of that amount, the District reported \$889,975, which was received as State transportation aid for school bus purchases, as due to the capital projects fund. However, the District had not properly established a capital reserve for school bus purchases; instead, according to the Treasurer, the District treats the “due to other funds” liability account as an informal reserve for future bus purchases. By reporting the \$889,975 as a liability rather than placing these moneys in a properly established capital reserve for bus purchases, the District is in effect maintaining a reserve without voter authorization or Board approval.⁴

³ For example, compensation earned in the last several days of a fiscal year that is not payable until a payroll period end date in the subsequent fiscal year

⁴ The balance of \$10,462 in this liability account reflected legitimate inter-fund advances.

Due to Other Governments — The District reported \$779,645 in this general fund liability account at June 30, 2010. According to District officials, \$750,000 of this amount was related to State aid that may have been paid in error approximately 15 years ago. However, District officials did not have documentation to support this contention and could not demonstrate that the State Education Department (SED) notified the District that it would be recovering aid from the District.

Due to TRS — Pension contributions for the New York State Teachers' Retirement System (TRS) that are due at the District's fiscal year end are satisfied through deductions from State aid in the ensuing months of September, October, and November. Therefore, the District should report a liability equivalent to the total amount to be deducted in those months. As is the practice, in August 2009 TRS informed the District of the employer contribution rates to be applied to salaries for the 2009-10 fiscal year (by deduction from State aid in September, October, and November 2010). Therefore, the District had sufficient information to accurately report the amount due to TRS, which was approximately \$367,000 as of June 30, 2010. Instead the District reported \$936,796 in the general fund as due to TRS at June 30, 2010, an overstatement of approximately \$570,000. District officials stated that they rely on the District's external auditor to account for and report this liability.

Due to ERS — For the New York State Employees' Retirement System (ERS),⁵ the billing period is April 1 through March 31. For the first quarter of the billing period, the District should report a liability equivalent to three months of ERS contributions for the months of April, May, and June. By October 15 of each year, ERS furnishes employers with a projection of the amount due on February 1 of the subsequent fiscal year. For example, on October 15, 2009, the payment projection will be for the February 1, 2011 payment. Therefore, the District has sufficient information to accurately record the amount due to ERS. The District's reported liability amount at June 30, 2010 should have been approximately \$53,000 for the three months. However, the District recorded \$533,457 as due to ERS, an overstatement of approximately \$480,000. District officials stated that, as with the "due to TRS" account, they rely on the District's external auditor to account for and report this liability.

We contacted the external auditor on numerous occasions to verify District officials' assertions regarding his involvement. However, the external auditor did not provide any explanations for the improper accounting treatment we found. We have significant concerns with

⁵ Administered by the New York State and Local Retirement System (NYSLRS)

the accounting treatment that was either recommended by him, or allowed as being appropriate, in reaching his opinion that the financial statements fairly present the District's financial activity. These actions allowed the District to circumvent statutes relating to fund balance limits and the proper use of reserves. Consequently we have referred this report to the SED Office of Professions which is responsible for overseeing the licensing of certified professional accountants.

In 2006 the District requested proposals for external auditing services for a five-year period and received three proposals. The District selected the firm which had been retained by the District since 1982. The firm proposed fees of \$9,500 for the first year with annual increases and total compensation of \$52,500. For comparative purposes, the other two firms proposed fees resulting in total compensation of \$89,710 and \$107,200, respectively. While cost is certainly a factor to consider when selecting a firm to provide professional services, given the questionable accounting and reporting practices addressed in this report, we believe audit quality should be given more weight by the Board. Because of our concerns about audit quality, we are conducting another audit specifically to determine if the District obtained audit services that met generally accepted government auditing standards (GAGAS).

Reserves

Reserves may be established by the Board in accordance with applicable laws. Moneys set aside in reserves must be used only in compliance with statutory provisions which determine how reserves are established and how they may be funded, expended and discontinued. Generally, school districts are not limited as to how much can be held in reserves. However, districts should maintain reserve balances that are reasonable. Funding reserves at greater than reasonable levels may contribute to real property tax levies that are higher than necessary because the excessive reserve funds are not being used for operations. The Board is responsible for developing a formal plan for the use of its reserves, including how and when disbursements should be made, and for ensuring that appropriate documentation is maintained to account for and monitor reserve activity.

The District has eight reserves in the general fund with reported balances totaling \$3.2 million at June 30, 2010. We analyzed the reserve funds for reasonableness and adherence to statutory requirements and determined that all eight reserves were properly established and five were reasonably funded at June 30, 2010. However, three reserves are funded at levels that are unreasonable: the unemployment insurance reserve (at \$768,000), the tax certiorari reserve (at \$450,000), and the retirement contribution reserve (at \$750,000). We conservatively

estimated that the District overfunded these combined reserves by approximately \$1.85 million.⁶

We also found that while the Board resolutions that established these reserves indicated how the reserves would be funded and what expenditures could be made from them, the Board did not indicate how it intended the reserves to be used. For example, it was not clear whether the Board expected to use the reserves to pay all related expenditures on an annual basis or only to cover significant increases. Without a specific indication of how the reserves are to be used, the Board and District officials cannot be held properly accountable for the use of these moneys and do not have a practical basis for determining reasonable funding levels.

Unemployment Insurance Reserve — General Municipal Law (GML) authorizes the establishment of this reserve to reimburse the State Unemployment Insurance Fund for payments made to claimants using the benefit reimbursement method. However, we analyzed activity in this reserve and determined that it is unreasonably funded. The District has no plan to use this reserve. No expenditures have been charged to the reserve; rather, unemployment costs are paid through general fund budgeted appropriations, which are funded by the annual tax levy. The District's average unemployment expenditures for the last three years were \$9,229. The current balance of more than \$768,000 is enough to pay the District's average unemployment costs for over 82 years.

Retirement Contribution Reserve — GML authorizes the establishment of this reserve for retirement contribution payments to the New York State and Local Retirement System, which administers the Employees' Retirement System (ERS). The District established this reserve and funded it to \$750,000 during the 2009-10 fiscal year. The average annual retirement contribution paid in the last three completed fiscal years is \$140,519. The annual bill received from ERS, paid in February 2011, was \$212,133. The Board included a general fund appropriation for this annual contribution in the 2010-11 adopted budget in the amount of \$223,926. Since the Board provides for this cost in its annual budget and therefore levies taxes to fund the annual expenditure, with no documented plan to use this reserve, the entire \$750,000 balance is not reasonable. Moneys from this reserve can be transferred only to another legal reserve, as authorized by GML.

Tax Certiorari Reserve — Education Law authorizes the establishment of this reserve to pay judgments and claims in tax certiorari

⁶ Comprising \$650,000 of the balance in the unemployment insurance reserve, the entire tax certiorari reserve balance of \$450,000, and the entire retirement contribution reserve balance of \$750,000

proceedings.⁷ The total amount in this reserve may not exceed the amount deemed necessary to meet anticipated tax certiorari judgments and claims.

The District increased the tax certiorari reserve from \$200,000 at June 30, 2009 to \$450,000 at June 30, 2010 (representing over 10 percent of the entire annual property tax levy of \$4.3 million for the 2009-10 fiscal year). However, District officials were not aware of any tax challenges beyond the seven tax certiorari proceedings that resulted in a total property tax reduction of \$2,188 for the 2010-11 fiscal year. Moneys from the discontinued reserve that are not reasonably required to pay judgments in the year they were deposited must be returned to operating funds within four years of the date of deposit. Therefore, the entire \$450,000 balance in this reserve should be returned to the general fund as unreserved, unappropriated fund balance.

Because the Board has not used most of the moneys in these three reserves, we question why it continues to hold these substantial balances. The unused reserve funds – in combination with the District’s overstated liabilities – represent a significant accumulation of taxpayer resources that are not being used.

Cash Flow Analysis and Short-Term Financing

Cash flow analysis is a tool to evaluate an entity’s cash position and help ensure that sufficient cash is available to pay obligations as they come due. District officials should periodically analyze cash flow and issue appropriate amounts of short-term financing as necessary. If a cash shortfall is expected, the District can issue revenue anticipation notes (RANs) in anticipation of receiving certain revenues, such as State aid or sales tax.

Annually, in June, the District issues a RAN that matures within one year in anticipation of State aid. District officials indicated that the District has issued RANs routinely for the past 10 years, even though year after year the borrowing was not needed for cash flow. During the last three completed fiscal years the District has unnecessarily issued a RAN each year in amounts ranging from \$1.5 million to \$2 million, and incurred \$195,000 in associated debt issuance and interest costs.

We analyzed the District’s cash flow and found that sufficient cash balances were available throughout the fiscal year. The District’s monthly bank balances reflected amounts ranging from \$11 million to \$14 million.⁸ The Treasurer did not properly analyze cash flow.

⁷ That is, when taxpayers who have been denied a reduction in property tax assessment challenge the assessment on the grounds of excessiveness, inequality, illegality or misclassification

⁸ The cash balance includes RAN proceeds ranging from \$1.5 million to \$2 million.

Although she estimated cash receipts and disbursements for each month, the Treasurer did not consider cash on hand, but incorrectly used fund balance in her analysis. For example, instead of using cash on hand of \$11.5 million at June 30, 2010, she incorrectly used the general fund balance of approximately \$800,000. Based on this incorrect information it appeared that the District needed to issue short-term financing. This borrowing was unnecessary and incurred \$195,000 in costs at taxpayer expense.

The Board's and District officials' practices of repeatedly overstating certain liabilities and overfunding certain reserves have obscured the District's true financial condition, compromised the transparency of District operations, and withheld significant taxpayer moneys from legitimate District uses.

Recommendations

1. District officials should ensure that liabilities are appropriately accounted for and reported in conformance with generally accepted accounting principles.
2. The Board and District officials should reduce the balance in the unemployment insurance and retirement contribution reserves, in accordance with legal restrictions, to a reasonable level.
3. The Board and District officials should ensure that amounts in the tax certiorari reserve are properly supported and should return any excess funds to unreserved general fund balance.
4. District officials should develop a plan to use the surplus fund balance identified in this report in a manner that benefits District taxpayers. Such uses could include, but are not limited to:
 - Increasing necessary reserves
 - Paying off debt
 - Financing one-time expenditures
 - Reducing District property taxes.
5. District officials should properly analyze cash flow and ensure that short-term financing is issued only if needed.

APPENDIX A
RESPONSE FROM DISTRICT OFFICIALS

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



KENDALL CENTRAL SCHOOL DISTRICT
1932 Kendall Road
Kendall, New York 14476

May 18, 2011

Board of Education

Patrick Donahue
Edward Gaesser
Nadine Hanlon
R. Randall Spurr
Lucille Welch

Julie E. Christensen
Superintendent
(585) 659-2741
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Carol D'Agostino
Principal
David J. Doyle
Jr. Sr. High School
(585) 659-2706
(585) 659-8988 FAX

Kevin Watson
**Assistant Principal/
Athletic Director**
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(585) 659-8988 FAX

Scott Wright
Principal
Elementary School
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(585) 659-8940 FAX

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Director
Pupil Personnel Services
(585) 659-8906
(585) 659-8904 FAX

Mr. Robert Meller
Chief Examiner of Local
Government and School Accountability
295 Main Street
Suite 1032
Buffalo, NY 14203

Dear Mr. Meller:

The Kendall Central School District is in receipt of the draft audit report prepared by the Office of the State Comptroller. The information presented in the audit demonstrates the intent of the process by providing us with an opportunity to reflect on our operations and governance procedures. At all times during the process, the associate examiner assigned to our District was helpful, professional and courteous. We appreciated the opportunity to work with her.

As indicated at the exit conference, our collective goal over the years has been to minimize the impact of inconsistent funding levels from the State while trying to maintain an effective instructional program insulated from dramatic swings in revenues. Due to the fact that approximately 55% of the District's operating funds come directly from New York State, we have adopted a conservative philosophy in budget preparation and execution. Application of this philosophy has allowed the District to maintain a consistent tax levy for the past six years of less than 2%.

The establishment and funding of reserves is an important consideration in the maintenance of a sound financial plan for any school district. While strict adherence to state law is required to ensure reserves are both legal and appropriate, adequately funded reserves are vital to the long-term health and stability of the school district. This concept is recognized by the New York State Comptroller:

Saving for future projects, acquisitions, and other allowable purposes is an important planning consideration for local governments and school districts. Reserve funds provide a mechanism for legally saving money to finance all or part of future infrastructure, equipment, and other requirements. Reserve funds can also provide a degree of financial stability by reducing reliance on indebtedness to finance capital projects and acquisitions. In uncertain economic times, reserve funds can also provide officials with a welcomed budgetary option that can help mitigate the need to cut services or to raise taxes. In good times, money not needed for current purposes can often be set aside in reserves for future use. (*Office of the New York State Comptroller — Local Government Management Guide — Reserve Funds, Pg. 1*)

The Kendall Central School District believes that the judicious use of reserves greatly reduces long term borrowing costs, smoothes large fluctuations in tax rates and minimizes the possibility of draconian mid-year budget cuts which would have a direct impact on students. It believes it is in the best interest of both the students and taxpayers to prudently establish and use reserves to weather the financial storms and uncertainties that will occur. Again, the Comptroller notes:

The practice of planning ahead and systematically saving for capital acquisitions and other contingencies is considered prudent management. Saving for future capital needs can reduce or eliminate interest and other costs associated with debt issuances. Similarly, certain reserve funds can be utilized to help protect the budget against known risks (a potential lawsuit) or unknown risks (a major ice storm). (*Office of the New York State Comptroller — Local Government Management Guide — Reserve Funds, Pg. 2*)

Response to Specific Recommendations

1. *District officials should ensure that liabilities are appropriately accounted for and reported in conformance with generally accepted accounting principles.*

The District liabilities included funding for a bond issue, emergency repair, and Post Employment Benefits Other Than Pension Benefits. At this point the bond issue deposit has been paid. The septic system and roof leakage have been mended with the anticipation that in the near future major work will be done. The State Comptroller has not appropriately provided a means to account for obligations imposed by GASB #45. The District was in process of addressing these liabilities at the time of the audit in a manner that benefited taxpayers and supported the educational program.

See
Note 1
Page 17

Further, over the last twenty nine years the District has responded to and applied recommendations made by our external auditor in the arena of liabilities. During this extended time the District had been audited by the Comptroller and various internal auditing companies. We appreciate the concerns noted by the Comptroller's Office this time in regards to the external auditing services we received. We further understand a subsequent audit will now be conducted by your office of our external audit professional services. Your report indicated the District did seek proposals for external auditing services and selected the current firm totaling \$52,500, rather than the other firm fees of \$89,710 or \$107,200. In one instance the firm fee was more than double the cost of the current contract! Your report further indicated that while cost is certainly a factor to consider, audit quality should be given more weight. The District respectfully reiterates, until this most recent Comptroller Audit, questionable accounting and reporting practices were not raised and therefore the District was selecting a firm that respected taxpayer costs.

Based on the Comptroller findings and suggestions we have implemented procedures consistent with general accounting practices. However, we believe this audit misrepresented excess funds and the District plan for use. It is our intent to utilize these funds to maintain programs and services during especially challenging economic times. Given the large increase in pension costs, health insurance and multiple unfunded mandates we believe a conservative approach mitigates large swings in taxes. By

applying these funds to cover these costs for many years we have effectively kept the tax levy under 2% while maintaining a quality educational program.

2. *The Board and District officials should reduce the balance in the unemployment insurance and retirement contribution reserves, in accordance with legal restrictions, to a reasonable level.*

Unemployment Insurance- This reserve has been established pursuant to General Municipal Law, §6-m to reimburse State Unemployment Insurance Fund for payments made to claimants. The recently adopted current law allows for unemployment claims to be paid for a total of 99 weeks. With the reduction in state aid, further layoffs are anticipated. We believe, in light of the current economic condition and amended laws for unemployment benefits, that the district is acting prudently and responsibly to mitigate large variations in costs to our taxpayers. For example, since unemployment benefits are based on the previous year of employment, if a previous employee is released from his position at a different company within that time period, Kendall will be responsible for a portion of those unemployment benefits. In addition, the audit report utilizes baseline data for years prior to the economic chaos we currently face, therefore we respectfully disagree with the assertions made in the report. However, the District has recommended using \$107,331 from the Unemployment Reserve for the 2011-12 fiscal years and will evaluate applicability for following fiscal years.

Retirement Contribution Reserve- The retirement contributions rates have continued to increase and are predicted to increase over the next few years. (2009/10, increase 6.19%, 2010/11, increase 8.62%, and 2011/12 increase 11.11%) We believe, based on the history and anticipated increases that the District is behaving prudently to mitigate variations in taxpayer funding expectations. With a contribution projected amount for 2011/12 of \$235,314, the reserve will be depleted very quickly. Nonetheless, the District is recommending utilizing \$235,314 from this reserve to offset taxes for the 2011-12 fiscal year and will evaluate applicability for following fiscal years.

3. *The Board and District officials should ensure that amounts in the tax certiorari reserve are properly supported and should return any excess funds to unreserved general fund balance.*

The Kendall Central School District recently went through a re-assessment of the district. Many of the property owners were filing grievance claims against their assessment. The school district cannot determine value or defend these challenges. Therefore, to be responsible stewards we must attempt to predict what *could* happen and plan accordingly. This amount was based on our understanding of possible costs to the District. Further, based on actual claims we now have better information and the amount designated from the 2008/09 school year will be returned to the taxpayers in the 2011/12 budget. Each year we will carefully evaluate the circumstances and plan accordingly.

Despite suggestions for Districts to deplete their reserves we respect the opinion of the Comptroller as noted in the Guidance Document *Local Government Management Guide-Reserves* that states:

In our personal lives, saving or putting money aside to finance future needs is a common practice. Questionably, strong arguments can be advanced for accumulating funds. The disputable philosophy "live for today and let tomorrow take care of itself" can easily be refuted with many savings slogan such as "prepare for a rainy day."

See
Note 2
Page 17

4. *District officials should develop a plan to use the surplus fund balance identified in this report in a manner that benefits District taxpayers. Such uses could include, but are not limited to: Increasing necessary reserves, Paying off debt, Financing one-time expenditures, Reducing District property taxes.*

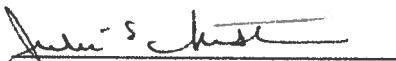
With the reduction in State Aid of almost three million in two years, the District has plans to use the reserve funds to maintain a reliable and stable tax levy for the 2011/12 fiscal year. In the past the District has utilized surplus funds to pay off debt, resulting in significant savings for the taxpayers. We do not support financing one-time expenditures unless the expense is needed and required. The District practice is to use these funds for future obligations, such as increased pension contributions, or reducing property taxes.

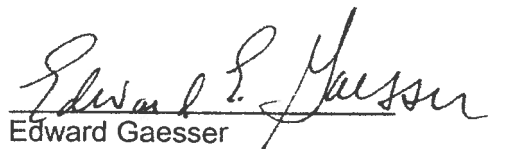
5. *District officials should properly analyze cash flow and ensure that short-term financing is issued only if needed.*

The District will review cash flow and only use short-term financing when needed. We appreciate the auditor's feedback in this area, as the recommendation differs from our financial advisor suggestions.

In conclusion, we are pleased with the overall financial condition that the NYS Comptroller's office found in our District. The Board of Education and the Administration have been diligently working over the past years to maintain consistency for the taxpayers of Kendall. We will work on these recommendations given in your audit report in an effort to maintain the quality educational programs that every student in the Kendall Central School District deserve, while we continue to persevere services in these historic economic times facing the State of New York.

Sincerely,


Julie Christensen
Superintendent


Edward Gaesser
Kendall Central School Board President

APPENDIX B

OSC'S COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

District officials should refer to the accounting bulletin that our Office sent to local government and school district officials regarding GASB Statement 45 – Other Post-Employment Benefits (OPEB). <http://www.osc.state.ny.us/localgov/pubs/releases/opeb.pdf>

Note 2

While our Office recognizes the financial benefits of properly funding and using reserves, in this particular case the District did not present documentation to support the amount in the reserve. The tax certiorari reserve should be based on a current schedule of pending tax certiorari proceedings and the amounts reasonably necessary to fund costs related to each action.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess District operations and identify areas where the District could realize efficiencies and protect assets from loss or misuse. To accomplish this, our initial assessment included a review of Board oversight and monitoring, financial condition, purchasing/claims processing, special education services, cafeteria services, and information technology.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions, and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes, and financial records and reports. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

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

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

- We interviewed District officials and reviewed Board minutes and relevant financial records and reports.
- We examined the District's reported liabilities to determine whether they were properly supported and in accordance with generally accepted accounting principles.
- We analyzed reserves to determine if they were properly established, supported and reasonably funded.
- We reviewed the District's cash flow analysis and analyzed bank account balances.
- We reviewed whether revenue anticipation notes were properly issued in accordance with relevant provisions of Local Finance Law.

We conducted our performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX D

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

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