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July 23, 2015

State Board of Education
700 East Fifth Street, Suite 100
Carson City, NV 89701

RE: NRS 387.304 and NRS 387.3045

Dear State Board of Education:

Nevada Revised Statute 387.304 requires the Department of Education to review each school district's annual audited financial statements for compliance to specific financial requirements.

For the Department to be in compliance with NRS 387.304, we have compiled the required information into summary worksheets for all the school districts. Attached is the summary of the Department's review for fiscal year 2014.

We have included in our review a couple of items that may be of interest:

- Deficit fund balances:
 - Churchill County School District had a deficit fund balance in the Hot Lunch and Milk Fund of \$71,804. In speaking with the District, this appears to be an issue pertaining to how the District was recognizing and accounting for commodities and not necessarily a cash deficit issue. The District has transferred money from the general fund in the current fiscal year to cover the deficit.
 - Elko County School District had a \$1,915,590 deficit in the Self-Insurance Health Fund. The District explained this was because of a heavier than expected claims year. The District has stated that they have responded to the deficit by raising premiums in order to cover the expenses.
 - Lander County School District had a \$3,519 fund deficit in the Federal Funds Special Revenue Funds. This was due to the District not receiving as much federal award money as it had received in previous years. The District transferred money from the general fund in the current fiscal year to cover the deficit.

- Variance of more than 10% between total general fund revenues and budgeted general fund revenues:

Beginning in FY2010, the Department of Taxation required a change in revenue recognition advising the school districts not to recognize net proceeds of mines revenue until the funds were received. We noted three districts had significant differences between their projected revenues and the revenues they actually received due to revenue recognition of mining proceeds:

- Esmeralda County School District had budgeted total revenues of \$1,628,816, but actual revenues totaled \$1,923,511. Also contributing to Esmeralda County School District’s revenue difference was higher than expected tuition payments from neighboring districts for out-of-district pupils.
- Eureka County School District had budgeted total revenues at \$6,936,241, but actual revenues totaled \$9,380,194.
- Lander County School District had budgeted total revenues at \$6,557,876, but actual revenues totaled \$10,589,865.

Nevada Revised Statute 387.3045 requires a report of a decline in a school district’s General Fund ending balance if the decline is for three consecutive years. The following table presents the review:

Churchill County School District		
Fiscal Year	General Fund Ending Balance	Change from Prior Year
2011	\$6,098,657	\$ 181,853
2012	\$5,293,363	(\$ 805,294)
2013	\$2,226,835	(\$3,066,528)
2014	\$1,271,781	(\$ 955,054)

- Churchill County School District’s General Fund ending balance has declined for three consecutive years: fiscal years 2012, 2013 and 2014.
- As required, the Churchill County School District’s Director of Business Services submitted a letter of explanation to the Committee on Local Government Finance. A copy of the letter is attached.

- In the District's letter to the Committee on Local Government Finance, the Director of Business Services explained the reason for the decline was due to the economic downturn as well as declining student enrollment in the District which affected revenues from the Distributive School Account (DSA). The District Trustees decided to use the general fund balance to lessen the impact of the budget shortfalls.

Please let me know if you have any questions concerning this information.

Sincerely,

Michael Shafer
Chief Auditor, Business and Support Services

Enclosures: Fiscal Year 2014 Compliance Summary
Letter from Churchill County School District, November 17, 2014

cc: Dennis Klenczar, CPA, Deputy Legislative Auditor, Legislative Counsel Bureau