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April 13, 2016

Kathy Hagenbuch, Superintendent
Members of the Board of Education
Campbell-Savona Central School District
8455 County Route 125
Campbell, New York 14821

Report Number: B2-16-6

Dear Superintendent Hagenbuch and Members of the Board of Education:

Chapter 416 of the Laws of 2006 authorizes Campbell-Savona Central School District (District) to issue debt totaling \$3,250,000 to liquidate the accumulated deficit in the District's general fund as of June 30, 2006. New York State Local Finance Law Section 10.10 requires all local governments that have been authorized to issue obligations to fund operating deficits to submit to the State Comptroller each year, starting with the fiscal year during which the local government is authorized to issue obligations and for each subsequent fiscal year during which the deficit obligations are outstanding, their tentative budget for the next succeeding fiscal year. The District's deficit obligations are scheduled to be retired in the 2016-17 fiscal year, so this is the final budget review we will conduct.

The budget must be submitted no later than 30 days before the date scheduled for the governing board's vote on its adoption or the last date on which the budget may be finally adopted, whichever is sooner. The State Comptroller must examine the tentative budget and make recommendations for any changes that are needed to bring the tentative budget into balance. Such recommendations are made after the examination into the estimates of revenues and expenditures of the District.

The Office of the State Comptroller (OSC) has recently completed a review of the District's budget for the 2016-17 fiscal year. The objective of the review was to provide an independent evaluation of the tentative budget. Our review addressed the following questions related to the District's budget for the upcoming fiscal year:

- Are the significant revenue and expenditure projections in the District's tentative budget reasonable?

- Did the District take appropriate action to implement or resolve recommendations contained in the budget review report issued in April 2015 and the audit report issued in May 2015?

To accomplish our objectives in this review, we requested your tentative budget, salary schedules, debt payment schedules and other pertinent information. We identified and examined significant estimated revenues and expenditures for reasonableness with emphasis on significant and/or unrealistic increases or decreases. We analyzed, verified and/or corroborated trend data and estimates, where appropriate. We identified any significant new or unusually high revenue or expenditure estimates, made appropriate inquiries and reviewed supporting documentation to determine the nature of the items and to assess whether the estimate was realistic and reasonable.

We also evaluated the amount of fund balance appropriated in the tentative budget to be used as a financing source and determined if the amount of fund balance was available and sufficient for that purpose. In addition, we inquired and checked whether written recommendations from the prior year’s budget review and audit were implemented or resolved and, therefore, incorporated as part of the current year’s budget.

The scope of our review does not constitute an audit under generally accepted government auditing standards (GAGAS). We do not offer comments or make specific recommendations on public policy decisions, such as the type and level of services under consideration to be provided.

The tentative budget package submitted for review for the fiscal year ended 2016-17 consisted of the following:

- 2016-17 Tentative Budget
- Supplementary Information

The tentative budget submitted to our Office is summarized as follows:

Fund	Appropriations and Provisions for Other Uses	Estimated Revenue	Appropriated Fund Balance	Real Property Taxes
General	\$22,190,678	\$17,854,154	\$677,746	\$3,658,778

Based on the results of our review, except for the matters described in this letter, we found that the significant revenue and expenditure projections in the tentative budget are reasonable. Although District officials increased real property taxes within the amount allowed by law, District officials could have used amounts from their excessive reserves and/or appropriated additional fund balance to finance operations. Therefore, District officials are imposing a higher real property tax levy on District residents than is necessary to provide educational services. Furthermore, because District officials presented the tentative budget to OSC for review prior to the adoption of the State budget,

District officials should make appropriate changes to their State aid estimates based on the information that has since been provided.¹

Our review disclosed the following findings which should be reviewed by the District's Board of Education (Board) for appropriate action. Good management practices require that District officials take prompt action concerning our recommendations, which we believe will help improve the District's financial condition.

Fund Balance and Reserves

The estimation of fund balance is an integral part of the budget process. Fund balance represents resources remaining from prior fiscal years that can be used to lower property taxes for the ensuing fiscal year. A district may retain a portion of fund balance, but must do so within the limits established by New York State Real Property Tax Law, which may not be more than 4 percent of the ensuing fiscal year's budget. Legally retained surplus funds may be used for cash flow purposes, unanticipated expenditures and/or revenue shortfalls.

District officials and OSC project that the District will have an operating surplus at the end of the 2015-16 fiscal year of approximately \$700,000. Therefore, none of appropriated fund balance totaling \$231,982 will be used to finance operations of the current year. In addition, none of the \$50,000 of reserved fund balance budgeted as a financing source will be used to cover expenditures as planned. Using our financial projections for the 2015-16 fiscal year and the 2016-17 proposed amount of appropriated fund balance totaling \$577,746, the District's estimated unrestricted fund balance as of June 30, 2016 will be approximately \$1.1 million, which is 4.99 percent of the ensuing year's appropriations of \$22.2 million and in excess of that amount allowed by law.

The District's practice of consistently appropriating fund balance that is not needed to finance operations is, in effect, a reservation of fund balance that is not provided for by statute and a circumvention of the statutory limit imposed on unrestricted fund balance. Furthermore, because reserves were generally not needed as a financing source over the last three years,² the District's unemployment reserve is overfunded. This reserve has a balance of \$116,081, which is almost 25 times the average annual expenditures.³ Furthermore, the unemployment reserve should be used to smooth out spikes in the contributions and subsidize the budget during tough years, instead of maintaining a balance to fund 25 years of costs. These budgeting practices have resulted in taxpayers paying more than necessary to sustain District operations.

We recommend District officials use fund balance in excess of the 4 percent limit by increasing the use of appropriated fund balance and reducing real property taxes. District officials should also review all reserves and determine if the amounts reserved are necessary, reasonable and in compliance with statutory requirements. To the extent that they are not, the Board should reduce the reserves to reasonable levels or discontinue the reserves in compliance with legal restrictions.

¹ The amount of aid provided by the adopted State budget exceeded the amount estimated in the tentative budget by approximately \$700,000.

² District officials included reserves as a financing source in each of the last three completed fiscal years totaling \$423,500, but only \$77,584 was used in the 2013-14 fiscal year because of an operating deficit.

³ The District's average annual unemployment expenditures for the last three fiscal years was \$4,703.

Prior Recommendations

During this budget review, we assessed the extent to which District officials acted to implement the recommendations contained in our prior budget review letter,⁴ which was issued in April 2015, and our audit report⁵ on financial condition issued in May 2015. Our follow-up review was limited to interviews with District personnel and inspection of certain documents related to the issues identified in our reports. Based on our limited procedures, we found that District officials have taken little or no corrective action. Our recommendations were provided to help District officials monitor District finances and protect taxpayer dollars.

We identified improvements that could be made in adopting more realistic budgets that accurately estimated expenditures and the appropriated fund balance and reserves that would be required to help finance them. The Board has not taken corrective action to implement the recommendations we made. Furthermore, the corrective action plan (CAP) prepared by the Assistant Superintendent of Management Services and approved by the Board in June 2015 stated the Board would continue with the budgetary practices that lead to the budget findings we reported on. The Board-adopted 2015-16 budgeted appropriations were again overestimated, therefore, reserves and appropriated fund balance will again not be needed to finance operations because an operating surplus of approximately \$700,000 is expected. Though the Board nominally reduced the real property tax levy by \$7,912, by maintaining excessive fund balance, both reserved and unrestricted, and not using appropriated fund balance, District taxpayers are paying more than necessary to sustain District operations.

Tax Cap Compliance

The State Legislature and the Governor enacted Chapter 97 of the Laws of 2011 that established a tax levy limit on all local governments and school districts, which was effective beginning in the 2012 fiscal year. The law precludes a school district from adopting a budget that requires a tax levy that exceeds the prior year's tax levy by more than 2 percent or the rate of inflation, whichever is less, and certain exclusions permitted by law, unless 60 percent of district voters approve a budget that requires a tax levy that exceeds the statutory limit. A simple majority, or 50 percent of district voter approval is required if the proposed tax levy does not exceed the statutory limit.

The District's proposed budget complies with the tax levy limit because it includes a tax levy of about \$4.8 million, which increases the 2016-17 tax levy by .28 percent over the 2015 tax levy. In adopting the 2016-17 budget, the Board should be mindful of the legal requirement to maintain the tax levy increase to no more than the tax levy limit as permitted by law, unless it obtains the proper voter approval to override the tax levy limit.

As noted previously, the Board has the responsibility to initiate corrective action to address the recommendations in this report. The Board must explain in writing to our office any recommendations that it has rejected. In addition, pursuant to Section 35 of New York State

⁴ *Campbell-Savona Central School District – Budget Review* (B2-15-10), issued April 5, 2015

http://www.osc.state.ny.us/localgov/audits/schools/2015/campbellsavona_br.pdf

⁵ *Campbell-Savona Central School District – Financial Condition*, issued May 6, 2015

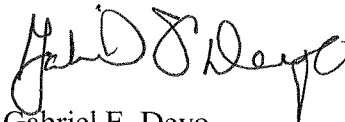
<http://www.osc.state.ny.us/localgov/audits/schools/2015/campbellsavona.pdf>

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, the Board must approve a CAP that addresses the findings in this report, forward the plan to our office within 90 days, forward a copy of the plan to the Commissioner of Education and make the plan available for public review in the District Clerk's office. For guidance in preparing your plan of action and filing this report, please refer to the attached documents.

We request that you provide us with a copy of the adopted budget.

We hope that this information is useful as you adopt the upcoming budget for the District. If you have any questions on the scope of our work, please feel free to contact Edward V. Grant Jr., Chief Examiner of the Rochester Regional Office, at 585-454-2460.

Very truly yours,



Gabriel F. Deyo
Deputy Comptroller

cc: Tim Allard, Assistant Superintendent of Management Services
James Frame, District Superintendent of Schools, Greater Southern Tier BOCES
Hon. Catharine M. Young, Chair, NYS Senate Finance Committee
Hon. Herman D. Farrell, Jr., Chair, NYS Assembly Ways and Means Committee
Hon. Philip Palmesano, NYS Assembly
Hon. Thomas F. O'Mara, NYS Senate
Robert F. Mujica, Jr., Director, Division of the Budget
Mary Ellen Elia, Commissioner, State Education Department
Thalia Melendez, Director, Office of Audit Services, State Education Department
Andrew A. SanFilippo, Executive Deputy Comptroller
Edward V. Grant Jr., Chief Examiner