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April 14, 2015

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

Report Number: B2-15-10

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. 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 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 earlier. 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 District board, no later than five days prior to the adoption of the budget, must review all recommendations made by the State Comptroller and may make adjustments to its tentative budget consistent with those recommendations contained in this report. All recommendations that the governing board rejects must be explained in writing to our Office.

Our Office has recently completed a review of the District budget for the 2015-16 fiscal year. The objective of the review was to provide an independent evaluation of the tentative budget. Our review addressed the following question related to the District budget for the upcoming fiscal year:

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

- Did the District take appropriate action to implement or resolve recommendations contained in the budget review report issued in April 2014?

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 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 2015-16 consisted of the following:

- 2015-16 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	\$21,382,675	\$17,454,285	\$343,962	\$3,584,428

Based on the results of our review, except for the matters described below, 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 instead used amounts from their excessive reserves and/or appropriated additional fund balance to finance operations. Therefore, District officials could be imposing a higher tax burden on District taxpayers than is necessary to provide educational services. Furthermore, because District official’s 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.

Our review disclosed the following findings which should be reviewed by the Board for appropriate action. Good management practices require that District officials take prompt action

concerning our recommendations. We believe that prompt action by District officials 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 unassigned fund balance, but must do so within the limits established by 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.

We projected that the District will have an operating deficit at the end of the 2014-15 fiscal year in the amount of \$220,948. Therefore, approximately half of the \$444,797 in appropriated fund balance will be used to finance operations this year. In addition, none of the \$70,000 of reserved fund balance budgeted as a financing source will be used to cover expenditures as planned. Using our projections for the 2014-15 fiscal year and the 2015-16 proposed amount of appropriated fund balance, the District's estimated unreserved fund balance at June 30, 2015 will be approximately \$846,000, which is 3.96 percent of the ensuing year's appropriations of \$21,382,675.

The District's practice of consistently appropriating fund balance that is not needed to finance operations is, in effect, a reservation of fund balance. Furthermore, because reserves were generally not needed as a financing source over the last three years,<sup>1</sup> two of the District's reserves totaling \$1.14 million appear to be overfunded. Specifically, the unemployment insurance reserve had a balance of \$116,459, which is over 16.5 times the average annual expenditures.<sup>2</sup> The capital reserve established for the purpose of financing bus and transportation purchases, as well as various capital improvements, had a balance of \$1,024,119 with no expenditures during the last three years or the current year, even though the District purchased buses totaling \$1,074,802 during the four-year period. These budgeting practices have resulted in taxpayers paying more than necessary to sustain District operations.

We recommend that District officials review the tentative budget and consider decreasing real property taxes by using reserve funds to finance operations as appropriate. District officials should also review all reserves and determine if the amounts reserved are necessary and reasonable. 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.

### **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 is effective beginning in the 2012 fiscal year. The law precludes local governments and school districts from adopting a budget that requires a tax levy that exceeds the prior year tax levy by more than 2 percent or the rate of

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<sup>1</sup> District Officials included reserves as a financing source in each of the last three budgets totaling \$625,328, only \$77,584 was used in the 2013-14 fiscal year.

<sup>2</sup> The District's average annual unemployment expenditures for the three-year audit period were \$6,990.

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.

The District's tentative budget complies with the tax levy limit because it includes a tax levy of \$4,811,313, which increases the 2015-16 tax levy within the limits established by law. In adopting the 2015-16 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.

### **Prior Budget Review Recommendation**

During this budget review, we assessed the extent to which District officials acted to implement the recommendations contained in our prior budget review letter, which was issued April 23, 2014. Our follow-up review was limited to interviews with District personnel and inspection of certain documents related to the issues identified in our report. Based on our limited procedures, we found that District officials have taken little or no corrective action. Our audit recommendations were provided to help District officials monitor District finances and protect taxpayer dollars.

Recommendation: We recommend that District officials increase the State aid estimates in the tentative budget to a reasonable amount, reduce appropriations to more realistic levels, and use unexpended surplus funds in excess of the 4 percent limit to benefit taxpayers. 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.

### Status of Corrective Action: Partially Implemented

Observations/Findings: District officials did increase the State aid estimates in the adopted budget to reflect those adopted by the Legislature. This should have allowed District officials to reduce the tax levy. However, instead of reducing the tax levy, District officials increased the 2014-15 appropriations by \$291,000 from the proposed budget making the amounts of appropriations more unrealistic. District officials also did not formally review all reserves to determine if the amount reserved was necessary, reasonable and in compliance with statutory requirements.

As noted previously, the Board has the responsibility to initiate corrective action to address the recommendations in this report and may make adjustments to its *proposed/tentative/preliminary* budget. The Board must explain in writing to our office any recommendations that it has rejected. In addition, 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, the Board must approve a corrective action plan 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.

Sincerely,

Gabriel F. Deyo  
Deputy Comptroller

cc: Tim Allard, Assistant Superintendent of Management Services  
James Frame, District Superintendent of Schools – GST BOCES  
Elizabeth Berlin, Acting Commissioner, State Education Department  
Maria Guzman, Director, Office of Audit Services, State Education Department  
Hon. John A. DeFancisco, Chair, NYS Senate Finance Committee  
Hon. Herman D. Farrell, Jr., Chair, NYS Assembly Ways and Means Committee  
Hon. Philip Palmesano, State Assembly  
Hon. Thomas F. O’Mara, State Senator  
Mary Beth Lebate, Director, Division of the Budget  
Andrew A. SanFilippo, Executive Deputy Comptroller  
Edward V. Grant Jr. Regional Chief Examiner