

Southern Cayuga Central School District

Financial Condition

NOVEMBER 2020



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Southern Cayuga Central School District

Audit Objective

Determine whether the Board and District officials effectively managed the District's financial condition.

Key Findings

The Board and District officials did not effectively manage financial condition.

- The Board underestimated revenues by an average of \$141,038 and overestimated appropriations by an average of \$1.3 million over the three completed years. As a result, the District generated large operating surpluses and did not use about \$1.1 million in appropriated fund balance.
- As of June 30, 2019, recalculated surplus fund balance totaled almost \$1.7 million and was 10.7 percent of 2018-19 expenditures.
- The Board and District officials did not develop adequate multiyear financial and capital plans.

Key Recommendations

- Adopt budgets that include reasonable estimates for revenues, appropriations and the amount of fund balance needed to fund operations.
- Reduce surplus fund balance to comply with the statutory limit and use the excess funds in a manner more beneficial to taxpayers.
- Develop comprehensive multiyear financial and capital plans that set long-term objectives and goals using realistic estimates.

District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on issues raised in the District's response letter.

Subsequent Event

Our audit fieldwork was completed during the COVID-19 pandemic (pandemic). The District's 2019-20 projections and our audit work do not factor in the pandemic's financial effects.

Background

Southern Cayuga Central School District serves the Towns of Fleming, Genoa, Ledyard, Locke, Scipio, and Venice in Cayuga County and part of the Town of Lansing in Tompkins County.

The District is governed by a seven-member Board of Education (Board). The Superintendent of Schools (Superintendent) is responsible, along with other administrative staff, for managing day-to-day operations under the Board's direction. The Assistant Superintendent for Business and Operations is responsible for the administration and supervision of financial activities, including working with the Board and Superintendent to develop and administer the budget.

Quick Facts

2018-19 Enrollment	625
2019-20 Appropriations	\$17.8 million
General Fund Reserves as of June 30, 2019	\$5.4 million

Audit Period

July 1, 2016 – March 16, 2020

Financial Condition

How Should the Board and District Officials Effectively Manage Financial Condition?

To effectively manage a school district's financial condition, a board should adopt realistic balanced budgets based on historical data or known trends, in which reasonable levels of fund balance are maintained. Accurate budget estimates help ensure that the real property tax levy is not greater than necessary.

Fund balance is the difference between revenues and expenditures accumulated over time. A district may retain a portion of surplus fund balance to provide a cushion against unforeseen events and to provide for fluctuations in cash flow.¹ New York State Real Property Tax Law (RPTL) currently limits surplus fund balance to no more than 4 percent of the next year's budget.²

Any surplus fund balance over this percentage must be used to fund needed reserves or reduce the upcoming year's real property tax levy. When fund balance is appropriated for the next year's budget, the expectation is that there will be a planned operating deficit equal to the amount of fund balance that was appropriated.

Prudent fiscal management requires the board to establish long-term financial and capital plans. Planning on a multiyear basis allows district officials to identify developing revenue and expenditure trends, set long-term priorities and goals and consider the impact of current budget decisions on future years. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period. Continually monitoring and updating these plans provides a reliable framework for preparing budgets and ensures that information used to guide decisions is current and accurate.³

Given the economic uncertainties that have resulted from the pandemic, accurate transparent budgeting supported by regular reporting and effective long-term planning is essential.

Surplus Fund Balance Consistently Exceeded the Statutory Limit

District officials developed and the Board adopted budgets for the last three completed years (2016-17 through 2018-19) that contained conservatively

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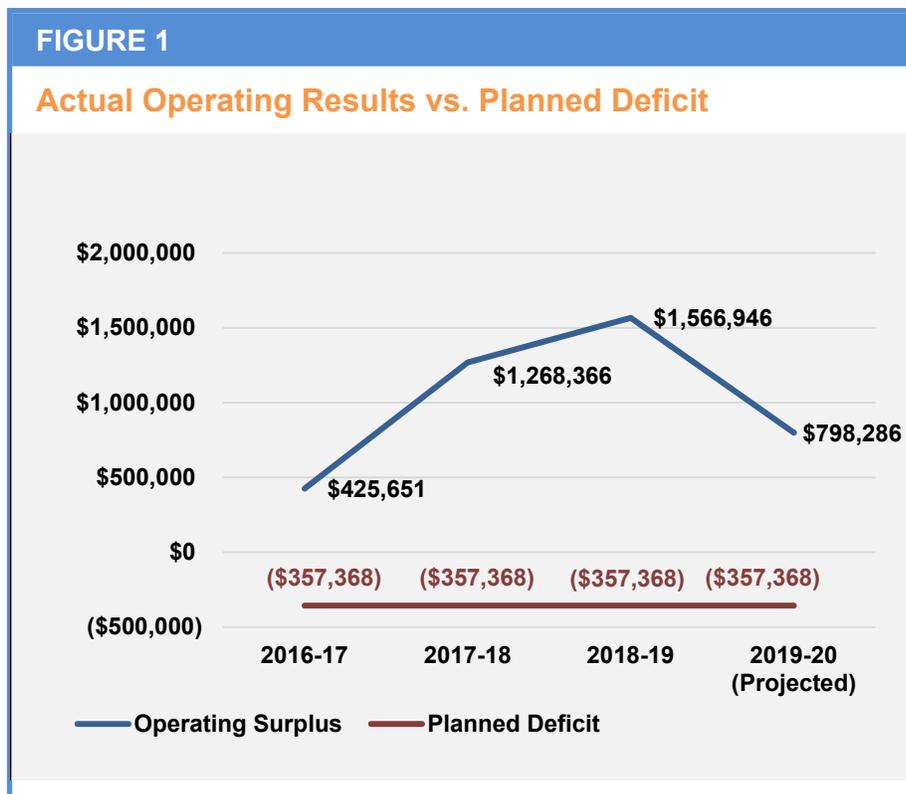
1 Surplus fund balance is defined as unrestricted fund balance minus appropriated fund balance and encumbrances included in committed and assigned fund balance. See our accounting bulletin at <https://www.osc.state.ny.us/localgov/pubs/releases/gasb54.pdf>

2 New York State Real Property Tax Law (RPTL), Section 1318

3 Refer to our publications Multiyear Financial Planning and Multiyear Capital Planning available on our website. www.osc.state.ny.us/localgov/pubs/lmgm/multiyear.pdf
www.osc.state.ny.us/localgov/pubs/lmgm/capital_planning.pdf

estimated revenues and significantly overestimated expenditures (3.6 to 10.7 percent) and did not reduce surplus fund balance to within legal limits or develop a specific plan to reduce surplus fund balance. This resulted in the District's reported surplus fund balance ranging from 7.5 percent to 12.3 percent of the next year's appropriations, which exceeded the 4 percent limit allowed by RPTL.⁴

In addition, the Board annually appropriated fund balance of \$357,368 as a financing source in each of the last three years (2016-17, 2017-18 and 2018-19), which indicated the Board anticipated consistent annual operating deficits equal to the amounts of funds appropriated. However, because the Board adopted budgets that were inaccurate, it resulted in unplanned operating surpluses of approximately \$3.3 million, instead of planned deficits totaling about \$1.1 million (Figure 1). Because of these budgetary practices, the Board levied more real property taxes than necessary. The Board increased the tax levy from \$7.85 million in 2016-17 to \$8.07 million in 2019-20, for an average annual increase of .7 percent and a total increase of 2.78 percent.



⁴ Net of the tax reduction reserve that is not included in the 4 percent calculation

The Board and District officials continued these budgeting practices for 2019-20. Using results of operations through February 29, 2020, we projected expenditures will be at least 5.3 percent less than budgeted appropriations. As a result, the District may have another unplanned operating surplus of approximately \$800,000. This would eliminate the need to use \$357,368 of appropriated fund balance in the current year's budget. Due to the financial effect of the pandemic, this projection may not be accurate. However, we included it to show the effect of the Board's and District officials' inaccurate budgeting.

Annually appropriating unneeded fund balance 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 the level of surplus fund balance. These budgeting practices also diminished the financial transparency to the taxpayers. When unused appropriated fund balance is added back, surplus fund balance exceeded current year expenditures by 10.7 to 16.1 percent (Figure 2).

Figure 2: Recalculated Surplus Fund Balance as a Percentage of Actual Expenditures

	2016-17	2017-18	2018-19	Projected 2019-20 ^a
Total Surplus Fund Balance	\$1,623,238	\$2,208,959	\$1,391,008 ^b	\$2,077,845
Add: Unused Appropriated Fund Balance	\$357,368	\$357,368	\$357,368	\$357,368
Less: Tax Reduction Reserve^c	\$176,387	\$ 52,281	\$ 53,218	\$ 54,033
Total Recalculated Surplus Fund Balance	\$1,804,219	\$2,514,046	\$1,695,158	\$2,381,180
Actual Expenditures^d	\$16,551,910	\$15,667,740	\$15,820,069	\$16,845,494
Recalculated Fund Balance as a Percentage of Actual Expenditures	10.9%	16.1%	10.7%	14.1%

a Based on financial data through February 29, 2020. Due to the financial effect of the pandemic, this projection may not be accurate. However, we included it to show the effect of the Board's and District officials' inaccurate budgeting.

b Surplus fund balance declined during 2018-19 because the Board and District officials transferred more than \$3 million of surplus funds to reserves at year-end.

c The balance of the tax reduction reserve is accounted for as surplus fund balance, but is not included in the statutory 4 percent limit.

d We used actual expenditures in our calculation instead of the next year's appropriations because conservative budgeting practices resulted in significantly overestimated appropriations.

Ultimately, the Board's and District officials' general fund budgeting practices made it appear that the District needed to both increase taxes and use appropriated fund balance to close projected budget gaps. However, the District realized operating surpluses and appropriated fund balance was not needed to finance operations. Given the District's budgeting practices and fund balance levels, the Board levied more taxes than necessary to sustain operations and may have missed opportunities to more effectively manage fund balance.

Multiyear Plans Were Inadequate

We reviewed the District's multiyear financial and capital improvement plans to determine whether these plans were reasonable. We found that the multiyear financial plan was inadequate because it did not include prior year actual results as a basis for the projected revenues and appropriations. Instead, inaccurate budget estimates for 2017-18 and 2018-19 were used.

Using budgeted amounts that are known to be inaccurate results in a continuation of these budgeting practices and is a poor planning strategy. In addition, the projected revenues and appropriations did not balance, which diminishes the usefulness of the financial plan. Further, the plan did not address fund balance levels or reserves.

The capital improvement plan used the 2015 building condition survey to identify potential capital projects in 2020 and 2022. However, the plan did not cover the need for \$1.9 million in the capital reserve or \$1.4 million in the repair reserve. The District's architect calculated the construction cost estimates for these projects using 2015 costs plus 15 percent for contingency, 15 percent for incidentals and 5 percent for inflation. However, the plan did not define the difference between contingency and incidental costs or explain why 15 percent was reasonable (especially because 10 percent is the allowable amount for contingencies). Further, the estimates for contingency and incidental costs were not equal even though both were stated in the plan as 15 percent.

Well-designed multiyear plans, which include specific estimates for revenues, expenditures, reserves, fund balance and long-term capital needs can assist the Board and District officials in effectively managing finances, addressing the use of surplus fund balance and planning for the reasonable and proper use of reserve funds.

Our fieldwork was completed in March 2020, during the pandemic. Given the negative financial effect of the pandemic, it is even more important for the Board and District officials to develop and monitor appropriate annual budgets and improve the multiyear financial and capital planning.

What Do We Recommend?

The Board and District officials should:

1. Develop and adopt budgets that include reasonable estimates for revenues, appropriations and the amount of fund balance needed to fund operations.

Using budgeted amounts that are known to be inaccurate results in a continuation of these budgeting practices and is a poor planning strategy.

-
2. Formulate a plan to reduce the amount of surplus fund balance in a manner that benefits District taxpayers. Surplus funds can be used as a financing source for:
 - Funding one-time expenditures
 - Funding needed reserves
 - Paying off debt
 - Reducing District property taxes
 3. Develop more comprehensive multiyear financial and capital plans to provide a framework for future budgets and guide the management of financial condition, as well as identify future capital needs using realistic estimates. The plans should be periodically reviewed and updated.

Appendix A: Response From District Officials



Southern Cayuga Central School

District Offices
2384 State Route 34B
Aurora NY 13026

Patrick M. Jensen
Superintendent of Schools
315 364-7211

Loretta L. Van Horn
Assistant Superintendent for Business & Operations
315 364-8711

July 31, 2020

Mr. Edward V. Grant, Jr., Chief Examiner
The Powers Building
16 West Main Street – Suite 522
Rochester NY 14614-1608

Dear Mr. Grant,

The Southern Cayuga Central School District is in receipt of the draft audit, financial condition, for the four-year period of July 1, 2016 – March 16, 2020, prepared by the Office of the State Comptroller. The Board of Education and administration thanks state auditors for their report. This letter includes both the district's response as well as the Corrective Action Plan for any recommendations noted.

1. Audit Recommendation: Adopt budgets that include reasonable estimates for revenues, appropriations and amount of fund balance needed to fund operations.

District Comment: The Board of Education believes that presenting conservative budgets is the best approach to ensure long-term financial stability and our ability to adjust to the everchanging financial climate. The Board is committed to minimizing tax increases, less than a 1% average yearly increase for the past four years, and strives to avoid large tax rate variations that could adversely impact taxpayers. It should be noted that Southern Cayuga retains one of the lowest tax rates in Central New York.

See
Note 1
Page 9

The Board of Education and Administration strive to adopt budgets with realistic estimates based on historical data and trends and does so in a transparent manner. The district budget process begins in the late fall with a review of actual revenue, as specified on state output reports, along with a line-by-line analysis of expenses for the past five years. Budget findings and adjustments are shared through public presentation during bi-weekly Board meetings. Our goal is to develop a budget that ensures financial preparedness to meet not only planned expenditures but also lost revenues and overestimated state aid (revenues) that fall short once received.

See
Note 2
Page 9

Uncertainty will remain part of any budget process given the mechanism written into the NYS budget that allows the Governor to lower the amount of state aid promised, price fluctuations of fuels, increasing need for and cost of special education programming, and the everchanging health benefit outlook. These types of uncertainties, including the current global pandemic, remain reasons for developing conservative budgets.

See
Note 3
Page 9

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July 31, 2020
Page 2

We believe we are responsible for ensuring that taxpayer dollars are being spent prudently. We continuously look for cost saving opportunities, which recently included reduced insurance costs by improving our experience rating, in addition to reduced borrowing costs by refinancing debt. In doing so our district has been able to achieve significant savings which resulted in actual costs being less than budgeted. Such savings have allowed the district to keep tax rate increases to a minimum, well under the tax cap limit. Given the district's healthy financial position, our hope is that any revenue reduction attributed to the coronavirus crisis will not be passed on to our community in the form of a higher tax levy.

See
Note 4
Page 9

Plan of Action: We will further examine and re-evaluate budgeted amounts for those lines identified by the Comptroller's Office.

2. Audit Recommendation: Reduce surplus fund balance to comply with statutory limits.

District Comment: The district's practice has been to use excess fund balance to both pay down debt and fund reserves. This practice has enabled the tax levy to remain low and to protect our residents from large tax increases. For the past several years, the district has targeted excess fund balance to our capital reserve as we anticipate future infrastructure needs. The strategic use of reserve funds will minimize the impact of current and future building projects on the district's operating budget. The local share of expense, approximately 20% of the voter approved \$4.9 million Project 2020, has already been realized through prior year fund balance.

See
Note 5
Page 9

Plan of Action: The district's budgeting practice protects residents from spikes in tax levies for unforeseen emergencies or loss of revenues. The district will budget planned use of fund balance as needed to comply with surplus limits to continue to be beneficial to taxpayers.

3. Audit Recommendation: Develop comprehensive multi-year financial and capital plans that set long-term objectives and goals.

District Comment: The district will continue to develop long-term plans for many areas, specifically budget, facilities, debt service, reserves, and technology. The district seeks an appropriate template for a comprehensive district plan and would appreciate support from the Comptroller's Office to locate a worthy example.

See
Note 6
Page 9

Plan of Action: The district will research what other districts are using to determine a format acceptable by the State of New York.

Sincerely,

Patrick Jensen
Superintendent of Schools
Southern Cayuga Central Schools

Appendix B: OSC Comments on the District's Response

Note 1

Although the Board minimally increased the tax levy \$218,150 for the years 2016-17 through 2019-20, it was unnecessary because unassigned fund balance in excess of the 4 percent allowed by RPTL could have been used instead.

Note 2

The Board and District officials' budgeting process significantly overestimated appropriations by \$3.9 million during our audit period.

Note 3

Our audit measured District performance during a period when State aid remained consistent over the three complete years ending June 30, 2019. In addition, over the same period, expenditures for fuel, health benefits and special education remained consistent and were less than anticipated. While the future will present uncertainties, this only reinforces the need for more accurate budgeting.

Note 4

While we support the District officials' commitment to cost savings, they should be incorporated in the budget estimates so unnecessary real property taxes are not levied.

Note 5

A more transparent method to fund reserves would be to include a provision in the budget instead of overestimating appropriations by \$3.9 million. The Board and District officials increased the capital reserve from \$100,000 to \$2.9 million, which is \$1.9 million more than needed to fund the local share of the voter approved capital project. As a result, depending on the timing of future needs, these funds may remain dormant in the capital reserve for an undetermined amount of time rather than with taxpayers who are also facing uncertain times.

Note 6

We encourage officials to review our *Multiyear Financial Planning* and *Multiyear Capital Planning* publications available on our website. Our regional office is also available to provide technical assistance.

www.osc.state.ny.us/localgov/pubs/lgmg/multiyear.pdf

www.osc.state.ny.us/localgov/pubs/lgmg/capital_planning.pdf

Appendix C: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed District officials and Board members and reviewed policies and procedures to gain an understanding of the budgeting and financial management processes and procedures, including the rationale for determining the levels to maintain for surplus fund balance and reserves.
- We compared budgeted appropriations and estimated revenues to actual results for three fiscal years and identified significant variances.
- We calculated operating results for the past three years and assessed whether appropriated fund balance was used as budgeted.
- We recalculated surplus fund balance as a percentage of the current year ended June 30, 2019 expenditures after adding back unused appropriated fund balance.
- We reviewed the multiyear financial and capital plans to determine whether the plans were reasonable. We recalculated the projected costs for two capital improvement projects identified in the capital improvement plan based on the 2015 costs plus 15 percent for contingency, 15 percent for incidentals and 5 percent for inflation.

We conducted this 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.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

The Board has a responsibility to initiate corrective action. 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, 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. 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 CAP should be posted on the District's website for public review.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263196&issued=All

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263206&issued=All

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263211&issued=All

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

Contact

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