



Cazenovia Central School District Financial Condition

Report of Examination

Period Covered:

July 1, 2014 — June 30, 2015

2015M-327



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2016

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 districts' 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 Cazenovia 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 New York State 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 Cazenovia Central School District (District) is located in the Towns of Cazenovia, Fenner, Georgetown, Lincoln, Nelson and Sullivan in Madison County and the Town of Pompey in Onondaga County. The District is governed by the Board of Education (Board), which is composed of seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs.

The Superintendent of Schools is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction. The Assistant Superintendent manages the District's overall financial operations and oversees the Business Office.

The District operates three schools with approximately 1,500 students and about 240 employees. The District's budgeted appropriations for the 2015-16 fiscal year are \$26.9 million, which are funded primarily with real property taxes, State aid and grants.

Objective

The objective of our audit was to evaluate the District's financial condition. Our audit addressed the following related question:

- Did the Board and District officials adequately manage the District's financial condition?

Scope and Methodology

We examined the District's financial condition for the period July 1, 2014 through June 30, 2015. To analyze the District's historical fund balance, budget estimates and financial trends, we extended our scope period back to July 1, 2011.

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 is included in Appendix B 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. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. 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, 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

The Board and District officials are responsible for making sound financial decisions in the best interests of the District, the students it serves and the taxpayers who fund its programs and operations. It is essential that officials develop reasonable budgets, develop long-term plans and manage fund balance responsibly and in accordance with statute to ensure that sufficient funding will be available to sustain operations, address unexpected occurrences and satisfy long-term obligations or future expenditures. The Board is authorized to establish reserve funds to finance future costs for a variety of specified purposes. Establishing and funding reserve funds helps provide the District with an added degree of financial stability and can provide officials with additional budgetary options in difficult economic times.

In recent years, the District has struggled with financial challenges and a deteriorating financial condition. We reviewed budget-to-actual results for fiscal years 2011-12 through 2014-15 and found that the Board adopted budgets with realistic revenue and expenditure estimates. However, the Board has relied on appropriated fund balance as a financing source in the annual budgets, causing the District to incur planned operating deficits¹ in the general fund. As a result, the District's total general fund balance declined by more than \$3.3 million (57 percent) over the past four years.

¹ A planned operating deficit occurs when a board purposely adopts a budget in which appropriations are greater than anticipated revenues, with the difference to be funded with appropriated fund balance or reserves.

Figure 1: General Fund Operating Results and Fund Balance

| | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|--|----------------------------|--------------|---------------|--------------|
| Beginning Fund Balance ^a | \$5,828,638 | \$4,801,115 | \$3,925,126 | \$2,805,298 |
| Plus: Operating (Deficit) | (\$1,027,521) ^b | (\$875,986) | (\$1,119,828) | (\$279,448) |
| Ending Fund Balance | \$4,801,117 | \$3,925,129 | \$2,805,298 | \$2,525,850 |
| Less: Restricted Fund Balance (Reserve Funds) | \$2,773,224 | \$2,197,565 | \$1,850,238 | \$1,757,610 |
| Unrestricted Fund Balance | \$2,027,893 | \$1,727,564 | \$955,060 | \$768,240 |
| Less: Fund Balance Appropriated for the Ensuing Year's Budget | \$1,050,000 | \$1,118,000 | \$750,000 | \$250,000 |
| Less: Encumbrances | \$62,987 | \$95,624 | \$120,101 | \$124,611 |
| Unassigned Ending Fund Balance ^c | \$914,906 | \$513,940 | \$84,959 | \$393,629 |
| Ensuing Year's Appropriations | \$25,552,252 | \$26,419,662 | \$26,495,954 | \$26,858,858 |
| Unassigned Fund Balance as a Percentage of Ensuing Year's Appropriations | 3.6% | 1.9% | 0.3% | 1.5% |

^a Includes prior period adjustments

^b The Board appropriated fund balance of \$1,050,000 in the 2011-12 budget, resulting in this planned operating deficit.

^c New York State Real Property Tax Law limits the amount of unassigned fund balance a school district can retain to no more than 4 percent of the next year's budgetary appropriations. Appropriated fund balance, encumbrances and amounts reserved for insurance recovery and tax reduction are subtracted from year-end unrestricted fund balance to arrive at the portion of fund balance subject to the 4 percent limitation.

The District's unassigned fund balance decreased to \$84,959 at June 30, 2014, which was 0.3 percent of 2014-15 appropriations, well below the statutory limit of 4 percent. Although the District had a \$279,448 operating deficit in 2014-15, it ended the year with unassigned fund balance of \$393,629, or 1.5 percent of 2015-16 appropriations. This increase in the unassigned fund balance was largely due to a \$500,000 decrease in the amount of fund balance the Board appropriated at the end of 2014-15 compared to the prior year.

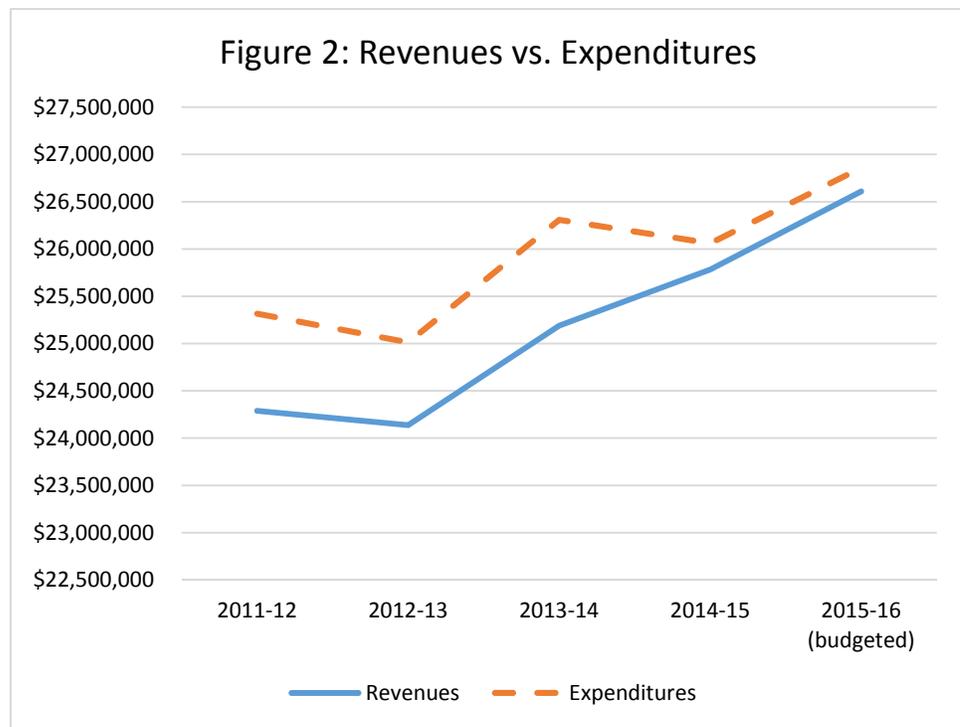
District officials stated that due to decreases in State aid² revenues and to the property tax cap,³ it was necessary to appropriate fund balance and use reserves in order to avoid making significant cuts to educational programs and staffing levels. District officials have

² New York State implemented a gap elimination adjustment (GEA) beginning in 2010-11 that reduces school aid in order to help balance the State's budget. According to the New York State Education Department, the District has absorbed a total GEA of approximately \$6.8 million from 2010-11 through 2014-15.

³ In 2011, the New York State Legislature enacted a law establishing a property tax levy limit, generally referred to as the property tax cap. Under this legislation, the property tax levied annually generally cannot increase more than 2 percent or the rate of inflation, whichever is lower, with some exceptions. School districts may override the tax levy limit by presenting to the voters a budget that requires a tax levy that exceeds the statutory limit. However, the budget must be approved by 60 percent of the votes cast.

calculated property tax cap limits and determined the annual tax levies without overrides. The tax levy has increased approximately \$1.6 million from \$15.6 million in 2011-12 to \$17.2 million in 2015-16, staying within the limits prescribed by the tax cap legislation. The average annual increase in the tax levy during this period was approximately \$387,000, or 2.4 percent.

At over \$8 million and 33 percent of total general fund revenues, State aid is a significant funding source for the District. We reviewed total State aid revenues from 2011-12 through 2014-15. During this period, State aid was fairly level⁴ (increased by \$139,858, or 1.7 percent) while expenditures increased by \$744,821 (2.9 percent). Therefore, the District used available fund balance and reserves to make up the difference. District officials recognized they could not sustain the level of appropriated fund balance and reduced the amount of fund balance appropriated from a high of \$1.1 million in the 2013-14 budget to a low of \$250,000 in the 2015-16 budget. The following figure shows the gap between total revenues and expenditures over recent years.



Over the last four fiscal years, the District developed realistic budget estimates based on known or historical expenditures. As a result, the annual operating results were very close to budget estimates – the average revenue variance was 1 percent and the average expenditure variance was 1.9 percent. In addition, the Board uses multiyear

⁴ Total State aid was \$8,233,646 in 2011-12, \$7,835,855 in 2012-13, \$8,069,582 in 2013-14 and \$8,373,504 in 2014-15.

financial planning during the budgeting process, and it routinely updates the financial plan to project financial results into future years. The District also set aside over \$4.2 million in a variety of reserve funds prior to 2011-12 and used about \$2.5 million from reserves to help fund expenditures in the face of its financial challenges the past four years. However, District officials did not include reserve fund appropriations in the annual budgets. Instead, the budgets showed that the District would rely on unrestricted appropriated fund balance to finance its operations. By including provisions to use reserve funds in the proposed budgets, the Board can increase the transparency of the budget process and District residents will be aware of the Board's plans for expending money from the reserve funds. As of June 30, 2015, the District had about \$1.76 million remaining in its reserve funds, which will help provide the District with an added degree of financial stability and give District officials options for financing associated expenditures in future years.⁵

District officials have also begun exploring cost-saving measures to reduce the dependence on using fund balance. The District has reduced staffing through attrition and elimination of positions. For example, the District reduced staffing by nine positions in the 2014-15 fiscal year, saving approximately \$403,000 compared to the prior year. District officials also hope to generate additional cost savings through improved energy efficiency as a result of a capital project which includes replacing windows and a boiler for the heating system. At the time of our audit, the project was still ongoing. Therefore, no energy cost savings had yet been recognized.

Recommendations

The Board and District officials should:

1. Continue to explore and pursue opportunities where savings could be achieved and avoid overreliance on appropriated fund balance.
2. Include reserve fund appropriations in the annual budgets, if they anticipate the use of reserve funds as a financing source in the ensuing year.

⁵ The District's reserve funds include an employee benefit accrued liability reserve (\$754,682), retirement contribution reserve (\$494,624), liability reserve (\$250,000), workers' compensation reserve (\$159,804), unemployment insurance reserve (\$65,000) and tax certiorari reserve (\$33,500).

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



CAZENOVIA CENTRAL SCHOOL DISTRICT

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Matthew Reilly
Superintendent

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February 12, 2016

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller, Syracuse Regional Office
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333 East Washington Street
Syracuse, NY 13202-1428

Ms. Wilcox:

This letter is our written response to the Office of the State Comptroller Audit for the period of July 1, 2014 through June 30, 2015 for the purpose of reviewing our district's financial condition. We were presented with the Draft Audit Report on January 14, 2016 and subsequently held an exit interview on January 21, 2016.

We agree with the findings of the audit process. We agree that the facts relied upon in preparing the findings are accurate and complete. We agree with the recommendations provided in the draft report. We will soon prepare our Corrective Action Plan and will submit it after review and approval by the Board of Education.

We also want to take this opportunity to reiterate our belief that it has been the restriction of operating revenue provided by the state that is chiefly responsible for our financial challenges and period of deteriorating financial condition. In recent years the Gap Elimination Adjustment (GEA) and the lack of fully funding of the Foundation Aid formula has severely reduced our State Aid revenue. This continues to impact our district today. The institution of the property tax cap has compounded the issue by restricting the amount of revenue we can generate without super-majority approval by district voters.

The need to reduce costs while awaiting the State's removal of the GEA and the full funding of foundation aid has prompted us to reduce program offerings and eliminate numerous positions by restructuring and attrition. On top of that we have appropriated fund balance to avoid further decimation of each. The appropriations have reduced fund balance enough to place us on the Comptroller's Moderate Fiscal Stress list. We are doing everything in *our* power to provide the best possible education for our students, and their continued outstanding performance in academics, the arts, athletics, and citizenship indicates that we are, but the GEA and inadequate foundation aid are making it increasingly more difficult to do so. Now,

more than ever, we need our State leaders to step up and do everything in *their* power to correct this situation.

As indicated by the draft report, we have begun the process of improving our financial condition. Though we recognize that we cannot continue to appropriate fund balance, we will continue to develop realistic budget estimates. We have and we will continue to seek additional sources of revenue. We have and we will continue to seek additional cost-saving measures. We have done, and will continue to do, our part to provide for our students while remaining responsible to our taxpayers. It is time that State leadership steps up and does their part.

Finally, we would like to thank the Senior Examiner assigned to our district and your office for your support during this process.

Sincerely,

Matthew Reilly, Superintendent

cc: Jan Woodworth, Board of Education
Thomas Finnerty, Assistant Superintendent
Pat Marzeski, District Clerk
Sheryl Conley, District Treasurer

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We reviewed and analyzed the District's financial records and reports for all funds, including annual budget documents, budget status reports and general ledgers. We analyzed the trend in total fund balance, including the use of appropriated fund balance and reserves in the general fund for the period 2011-12 through 2014-15. We also compared the unassigned fund balance to the ensuing years' budgeted appropriations to determine if the District was within the statutory limit.
- We interviewed District officials and reviewed Board minutes to gain an understanding of the District's financial management procedures, including the initial budgeting process, monitoring the budget, establishing long-term plans, using fund balance and using and funding reserves, as well as for determining the cause of the fund balance decline.
- We reviewed reserve fund expenditures for 2014-15 to determine if they were for proper purposes.
- We reviewed the June 30, 2015 interfund loan balances, interviewed District officials and reviewed financial reports to verify that the loans could be repaid.
- We calculated the results of operations over the last four years by comparing actual revenues to actual expenditures. We determined whether the annual operating deficits were planned or unplanned.
- We compared general fund adopted budgets to actual revenues and expenditures for the fiscal years 2011-12 through 2014-15 to determine if the District's revenue and expenditure budget estimates were realistic.
- We verified cost savings reported by the District by reviewing select salary expenditures for eliminated and consolidated positions. We used personnel and payroll records and expenditure records, and we made inquiries of District officials to verify the cost savings.

We conducted this performance audit in accordance with 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 C

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