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April 19, 2013

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

Report Number: B2-13-12

Dear Superintendent 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 or preliminary 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 the adoption of the budget 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 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 2013-14 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 2013-14 fiscal year:

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

To accomplish our objective 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.

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 2013-14 consisted of the following:

- 2013-14 Tentative Budget
- Supplementary Information

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

Fund	Appropriations and Provisions for Other Uses	Estimated Revenues	Appropriated Fund Balance	Real Property Taxes
General	\$20,977,451	\$17,120,306	\$359,133	\$3,498,012

Based on our review, individual significant revenue and expenditure projections in the tentative budget appear reasonable. However, this tentative budget, as well as those from the last five years, is likely to produce an operating surplus. As a result, fund balance appropriated as a financing source is unlikely to be used and the District's fund balance will continue to increase.

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

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, referred to as unexpended surplus funds, but must do so within the limits established by Real Property Tax Law. Currently the amount of unexpended surplus funds that the District can retain 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. Districts may also use unexpended surplus funds to establish or increase legal reserves.

The District reported unexpended surplus funds at a level that complied with statute by adopting budgets which appropriated fund balance as a financing source and projected operating deficits. However, the District's conservative budgeting practices have resulted in operating surpluses¹ for each of the last five years. Therefore, appropriated fund balance included in each year's budget² was not needed to finance planned expenditures. In effect, this circumvented the 4 percent statutory fund balance limit. In addition, none of the \$765,000 of reserved fund balance budgeted as a financing source over the last five years was used to cover expenditures as planned. Instead, the District used surplus funds. These budgeting practices circumvented statutory controls and resulted in taxpayers paying more than necessary to sustain District operations.

Using the District's current projections and the 2013-14 proposed amount of appropriated fund balance, the District's estimated unexpended surplus funds at June 30, 2013 will be approximately \$2 million, which is 10 percent of the ensuing year's appropriations of \$20,977,451. We estimate the amount in excess of the 4 percent limitation is \$1.2 million therefore appropriating only \$359,133 as planned will not ensure that the District is in compliance with statutory limits.

We recommend that District officials review the tentative budget and use unexpended surplus funds in excess of the 4 percent limit to benefit taxpayers. Such uses could include, but are not limited to, increasing or establishing legal reserves, paying off debt, financing one-time expenses or reducing the District's real property taxes by appropriating additional fund balance.

Tax Cap Compliance

The State Legislature 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 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 inflation, whichever is less,³ 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 \$4,695,318, which increases the 2014 tax levy by 1.9 percent over the 2013 tax levy of \$4,603,253. In adopting the 2013-14 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.

¹ Total operating surpluses over the last five years was \$3.6 million.

² Total appropriated fund balance over the last five years was \$2 million.

³ Our Office has previously determined that the rate of inflation applicable to school districts with a fiscal year beginning July 1, 2013, is greater than 2 percent. Therefore, the property tax levy is capped at 2 percent.

The Board has the responsibility to initiate corrective action. Pursuant to Section 10.10 of Local Finance Law, the Board shall review the recommendations in this report and may make adjustments to its proposed/tentative 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 a 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,

Steven J. Hancox
Deputy Comptroller
Division of Local Government and
School Accountability

cc: Tim Allard, Assistant Superintendent of Management Services
Dr. Horst G. Graefe, District Superintendent of Schools – GST BOCES
John A. DeFrancisco, Chair, NYS Senate Finance Committee
Herman D. Farrell, Jr., Chair, NYS Assembly Ways and Means Committee
Philip Palmesano, NYS Assembly
Thomas F. O'Mara, NYS Senator
Robert L. Megna, Director, Division of the Budget
John B. King, Jr., Commissioner, State Education Department
James Conway, Director, Office of Audit Services, State Education Department
Edward V. Grant Jr., Regional Chief Examiner