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April 23, 2014

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

Report Number: B2-14-11

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 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 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.

We have recently completed a review of the District budget for the 2014-15 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 2014-15 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 2014-15 consisted of the following:

- 2014-15 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	\$23,108,013	\$19,095,632	\$469,595	\$3,542,786

Based on our review, we found the District's proposed budget is not reasonable. The District's 2014-15 appropriations are \$23,108,013, which are \$3.6 million more than the District's actual expenditures for the last completed fiscal year, 2012-13. Because the District has overestimated appropriations and underestimated State aid by almost \$680,000 (as well as other, insignificant revenues), the District's proposed tax levy is higher than necessary. Furthermore, District officials have used operating surplus to create or increase reserves to ensure that fund balance did not exceed the 4 percent limitation allowed by law.

Our review disclosed the following findings which the Board should review 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.

Appropriations

The Board has a responsibility to taxpayers to estimate appropriations as accurately as possible to prevent the levy of more real property taxes than is necessary to sustain District operations. Effective budget preparation requires an accurate assessment of spending needs and the means to finance those needs. It is important for spending estimates to be developed based on past expenditure trends, anticipated future needs, and discretionary services planned for the ensuing year.

The District anticipates spending \$20,827,418 in the 2013-14 fiscal year, which is approximately \$440,000 less than 2013-14 budgeted appropriations. However, based on historical trends and current fiscal year expenditures,¹ the District's projected expenditures for 2013-14 are not realistic. As of February 18, 2014, the District has spent \$8.4 million of its 2013-14 budget appropriations. We estimate that the District will spend another \$11.3 million for employee salaries and benefits, debt payments, BOCES services and encumbrances over the remainder of the fiscal year, for a total of \$19.7 million, which is at least \$1.1 million short of the District's projection.

District officials could have calculated more accurate projections for these expenditures and provided this information to the Board when developing the budget. By overestimating costs, the Board is creating annual operating surpluses and placing a higher tax burden on District taxpayers than necessary.

Estimated Revenues

Sound budgeting provides sufficient funding for current operations. In preparing the budget, District officials are responsible for estimating what the District will receive in revenue, how much fund balance will be available at fiscal year end to fund the ensuing year's operations and what the expected tax levy will be. During the period from when the budget is approved by the voters until the tax levy is established, certain information becomes available, such as more accurate State aid estimates, fund balance data and a finalized assessment roll.

District officials underestimated State aid in the 2014-15 tentative budget by almost \$680,000. According to the recently adopted State budget, the District is expected to receive \$17,564,872 in State aid, which is significantly higher than the District's estimated amount of \$16,885,000. Therefore, District officials could be imposing a higher tax burden on District taxpayers than is necessary to provide educational services.

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

¹ As of the February 19, 2014

of the ensuing fiscal year's budget. Legally retained surplus funds may be used for cash flow purposes, unanticipated expenditures and/or revenue shortfalls.

Using the District's current projections and the 2014-15 proposed amount of appropriated fund balance, the District's estimated unreserved fund balance in the general fund as of June 30, 2013 will be approximately \$1 million, which is 4.3 percent of the ensuing year's appropriations of \$23,108,013. However, since we have determined that the District's proposed 2014-15 budget appropriations and 2013-14 projected operating results are unrealistic, this percentage will be even higher. We estimate the minimum amount in excess of the 4 percent limitation is \$100,000 and, therefore, appropriating \$469,595 as planned will not ensure that the District is in compliance with statutory limits.

We recommend that District officials increase the State aid estimate 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.

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 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, 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 \$4,755,418, which increases the 2014-15 tax levy within the limits established by law. In adopting the 2014-15 budget, the Board should be mindful of the legal requirement to maintain the tax levy increase to no more than the calculated limit, unless 60 percent of District residents vote to exceed this statutory limit.

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.

Sincerely,

Gabriel F. Deyo

cc: Tim Allard, Assistant Superintendent of Management Services
Dr. Horst G. Graefe, District Superintendent of Schools – GST BOCES
Hon. John A. DeFrancisco, 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
Robert L. Megna, Director, Division of the Budget
Dr. John B. King Jr., Commissioner, State Education Department
Maria Guzman, Director, Office of Audit Services, State Education Department
Edward V. Grant Jr., Regional Chief Examiner