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April 15, 2015

Michael Hoose, Superintendent  
Members of the Board of Education  
Cortland Enlarged City School District  
1 Valley View Drive  
Cortland, NY 13045

Report Number: B4-15-12

Dear Superintendent Hoose and Members of the Board of Education:

Our Office has recently completed a review of the Cortland Enlarged City School District's (District) budget for the 2015-16 fiscal year. The objective of the review was to provide an independent evaluation of the preliminary budget. Our review addressed the following question related to the District's budget for the 2015-16 fiscal year:

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

To accomplish our objective in this review, we requested your preliminary 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 preliminary 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 preliminary budget package submitted for review for the fiscal year ended June 30, 2016 consisted of the following:

- 2015-16 Preliminary Budget
- Supplementary Information

The preliminary budget submitted to our office is summarized as follows:

<b>Fund</b>	<b>Appropriations and Provisions for Other Uses</b>	<b>Estimated Revenues</b>	<b>Appropriated Fund Balance</b>	<b>Estimated Use of Reserves</b>	<b>Real Property Taxes</b>
General	\$49,576,887	\$27,069,955	\$500,000	\$5,000,000	\$17,006,932

Based on the results of our review, we found that the significant revenue and expenditure projections in the preliminary budget are not reasonable.

Our review disclosed the following findings which should be reviewed by the District’s Board of Education (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.

### **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 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’s proposed budget for payroll, health insurance, retirement, debt and utilities exceeded the District’s supporting documentation for those items. Consequently, the District has overestimated appropriations by \$3.2 million as follows: payroll (\$1.2 million), health insurance (\$400,000), retirement (\$1.1 million), debt (\$175,000) and utilities (\$333,000). The majority of these appropriations are contractual obligations which District officials should be able to accurately estimate based on available supporting documentation. We recommend that the District create budgets that are reasonable and based on prior years’ actual amounts with appropriate increases.

### **Reserve Funds**

The District plans to use \$5 million of its reserve funds to help fund appropriations in the upcoming fiscal year, including \$2 million of its retirement contribution reserve fund. However, this reserve fund can only be used to pay for retirement contributions.<sup>1</sup> The 2015-16 estimated cost for

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<sup>1</sup> “Retirement contributions” are defined as all or any portion of the amount payable to either the New York State and Local Employees’ Retirement System or the New York State and Local Police and Fire Retirement System.

retirement contributions to the New York State and Local Employees' Retirement System totals approximately \$760,000. Therefore, using the remaining \$1.2 million to fund other expenditures of the District is not an appropriate use of this reserve. We recommend the District identify alternate sources of revenue or adjust their appropriations estimates. District officials should also analyze their planned use of reserve funds to ensure they will be able to legally use them as a financing source.

### **Operating Deficit**

Our estimate of revenues, excluding the use of fund balance and reserve funds, is less than our estimate of total appropriations by approximately \$2.3 million which would create an operating deficit for the third consecutive year. In fact, we estimate that from 2013-14 through our projections for 2015-16, the District will use \$6.2 million<sup>2</sup> in fund balance and reserve funds. The District has significant balances in reserve funds that are available for appropriation for specific purposes; however, fund balance is a finite financing source that should not be relied on year after year. Continued reliance on using fund balance to fund District operations will eventually deplete fund balance. After considering the District's planned use of \$500,000 of appropriated fund balance for the 2015-16 budget, the District's unassigned fund balance for the 2014-15 year end is only \$200,000, or 0.4 percent of the ensuring year's appropriations. We recommend the District examine the use of fund balance and reserve funds as a recurring financing source and consider reductions in appropriations which, as stated previously, are overstated by about \$3.2 million.

### **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 a school district 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 the district voters approve a budget that requires a tax levy that exceeds the statutory limit.

The District's proposed budget complies with the tax levy limit because it includes a tax levy that is 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.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the New York State General Municipal Law, Section 2116-a (3)(c) of the New York State 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.

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<sup>2</sup> The District's operating deficit in 2013-14 was \$1 million, the projected operating deficit for 2014-15 is \$2.9 million and we project an operating deficit in 2015-16 of \$2.3 million (the District's operating deficit projection of \$5.5 million less the overestimated appropriations of \$3.2 million).

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 H. Todd Eames, Chief Examiner of the Binghamton Regional Office, at (607) 721-8306.

Sincerely,

Gabriel F. Deyo  
Deputy Comptroller

cc: Margaret Boice, Interim Director of Business  
Margaret Baccaro, Clerk of the Board  
J. Francis Manning, District Superintendent – BOCES  
Beth Berlin, Acting Commissioner, State Education Department  
Maria Guzman, Director, Office of Audit Services, State Education Department  
Andrew A. SanFilippo, Executive Deputy Comptroller  
H. Todd Eames, Chief Examiner