OFFICE OF THE NEW YORK STATE COMPTROLLER

DIVISION OF LOCAL GOVERNMENT
& SCHOOL ACCOUNTABILITY

Southern Cayuga Central School District

Financial Management

Report of Examination

Period Covered:

July 1, 2010 — August 6, 2015

2015M-224

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

December 2015

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 Southern Cayuga Central School District, entitled Financial Management. 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 Southern Cayuga Central School District (District) is located in the Towns of Venice, Locke, Genoa, Scipio, Fleming and Ledyard in Cayuga County, and the Town of Lansing in Tompkins 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 (Superintendent)[1] 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 Business Administrator[2] is responsible for accounting for the District's finances, maintaining accounting records and preparing financial reports.

The District has two schools in operation: an elementary school and a junior/senior high school located on the same campus. In total, the District has approximately 720 students and 240 employees. During the 2014-15 fiscal year, the District had operating expenditures of approximately $16 million, funded primarily with State aid and real property taxes. The District's budgeted general fund appropriations for the 2015-16 fiscal year are approximately $16.4 million.

Objective

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

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

Scope and Methodology

We examined the District's financial management for the period July 1, 2010 through August 6, 2015.

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 are included in Appendix B of this report.

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1 The current Superintendent was appointed to the position in July 2012.

2 The former Business Administrator was in the position from September 2012 through July 2015, and the current Business Administrator was appointed in August 2015.

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 plan 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 Management

District officials are accountable to taxpayers for the use of District resources and are responsible for effective planning and management of District operations. District officials have a responsibility to provide required services in a cost-efficient manner to ensure tax dollars are spent economically. Additionally, legislation that passed in 2011, often referred to as the tax cap, limits school districts' ability to increase the annual tax levy by the lesser of 2 percent or the rate of inflation. A district may override the tax cap with approval from a 60 percent majority vote of the taxpayers. Therefore, it is essential that officials develop reasonable budgets and seek opportunities to reduce costs and manage fund balance responsibly. Sound policies and procedures coupled with prudent fund balance management ensure that sufficient funding will be available to sustain operations, address unexpected occurrences and satisfy long-term obligations or future expenditures. Further, District officials should develop comprehensive multiyear financial and capital plans to estimate the future costs of ongoing services, upcoming expenditures and capital needs.

District officials have generally taken appropriate action to manage the District's financial condition. Although the District generated operating deficits of approximately $160,000 in fiscal year 2011-12 and approximately $375,000 in 2012-13, they were largely planned. District officials also implemented multiple cost savings actions that aided in improving the District's financial condition and resulted in operating surpluses of approximately $70,000 for 2013-14 and $380,000 for 2014-15. The District's fund balance increased by 20 percent in 2014-15, which improved its financial condition and ability to plan for the future. However, the District's multiyear financial plan does not address its debt share or declining enrollment. These factors could adversely affect the District's financial condition and, therefore, should be planned for.

Financial Condition and Cost Savings

Financial condition can be defined as a school district's ability to balance recurring expenditure needs with recurring revenue sources, while providing services on a continuing basis. District officials should continually evaluate their operations to identify areas of potential cost savings or revenue enhancements and assess the extent to which implementation may result in actual savings. Additionally, financial condition is affected by annual budget estimates. To address changing budget trends or needs, District officials should implement practices and procedures to aid them in identifying and realizing cost savings opportunities.

District officials made decisions and implemented steps which helped improve the District's financial condition from fiscal years 2010-11 through 2014-15. As shown in Figure 1, the District experienced a planned operating deficit of approximately $160,000 in 2011-12 and an operating deficit of approximately $375,000 in 2012-13 that was mostly planned.[3] Expenditures increased by approximately $547,000[4] (4 percent) from 2010-11 to 2012-13, while revenues decreased by approximately $65,000 (less than 1 percent) during this same period. As a result, the District's total general fund balance steadily decreased between fiscal years 2010-11 and 2012-13 to a low of $1.84 million at the end of this period. The District's unrestricted fund balance also decreased from 2011-12 (4 percent of the ensuing year's budget) through 2013-14 (2.7 percent of the ensuing year's budget).

Figure 1: General Fund Operating Results and Fund Balance

	2010-11	2011-12	2012-13	2013-14	2014-15	Totals
Operating Results						
Revenues	$15,372,464	$15,164,492	$15,307,990	$15,939,350	$16,444,675	**$78,228,971**
Expenditures	$15,136,171	$15,324,251	$15,683,428	$15,869,848	$16,064,171	**$78,077,869**
Operating Surplus/(Deficit)	$236,293	($159,759)	($375,438)	$69,502	$380,504	**$151,102**
Fund Balance						
Beginning Fund Balance	$2,143,043	$2,379,336	$2,219,577	$1,844,139	$1,913,641	
Year-End Fund Balance	$2,379,336	$2,219,577	$1,844,139	$1,913,641	$2,294,145	
Appropriated Fund Balance	$540,397	$540,397	$357,368	$357,368	$357,368	
Nonspendable Fund Balance	$195,000	$195,000	$4,248	$0	$0	
Assigned Fund Balance	$100,601	$112,110	$115,570	$46,548	$82,623	
Restricted Fund Balance	$1,113,040	$739,125	$833,316	$1,051,612	$1,275,771	
Unrestricted Fund Balance	$430,298	$632,945	$533,637	$458,113	$578,383	
Unrestricted Fund Balance as a % of Ensuing Year's Budgeted Appropriations	2.7%	4.0%	3.3%	2.7%	3.5%	

In response to these trends and challenging economic times, the District was forced to make some difficult decisions. These decisions included taking measures to decrease expenditures and avoid further operating deficits and additional decreases in general fund balance. Most significantly, the District closed and sold the former elementary school building during the 2012-13 fiscal year. District officials placed the proceeds of the sale in a reserve for tax reduction to offset the 2013-14 tax levy. Due to the closure and move to a single campus,

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3 $18,070 of the operating deficit in 2012-13 was unplanned.

4 Programs for students with disabilities and teacher retirement costs were the largest drivers behind this increase.

District officials estimate the total annual savings are at least $336,000. The consolidation resulted in utility cost savings, avoided additional costs for capital upgrades and allowed the District to consolidate its administrative team to a single campus to improve efficiency.

Furthermore, the District has eliminated a total of five positions since the 2011-12 fiscal year, which led to an estimated annual cost savings of $178,000. The District also implemented a retirement incentive at the end of the 2012-13 fiscal year, resulting in a total savings of approximately $214,000 for the 2013-14 and 2014-15 fiscal years and a projected savings of approximately $73,000 for the 2015-16 fiscal year. These savings contributed to the District experiencing an operating surplus of approximately $380,000 for the 2014-15 fiscal year. This surplus increased the District's fund balance by 20 percent, helped to improve its financial condition and assisted with planning for the future.

We also reviewed the District's 2015-16 budget and found that District officials budgeted similarly to previous years. The District's budget includes $16,019,744 in estimated revenues, $16,397,112 in appropriations, and $357,368 of appropriated fund balance and $20,000 of appropriated reserves to finance operations. The District has not implemented further cost savings initiatives. Also, as discussed in the Multiyear Planning section of this report, the District's 2015-16 debt share[5] is expected to increase by 76 percent over 2014-15.

Multiyear Planning

It is important for District officials to develop comprehensive multiyear financial and capital plans to estimate the future costs of ongoing services and capital needs. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period. They also allow District officials to identify developing revenue and expenditure trends, set long-term priorities and goals and avoid large fluctuations in tax rates. Multiyear plans help District officials to assess the effect and merits of alternative approaches to address financial issues, such as using unrestricted fund balance to finance operations and accumulating money in reserve funds. Long-term financial plans work in conjunction with Board-adopted policies and procedures to provide necessary guidance to employees on the financial priorities and goals set by District officials. Additionally, District officials must monitor and update long-term financial plans on an ongoing basis to ensure that their decisions are guided by the most accurate information available.

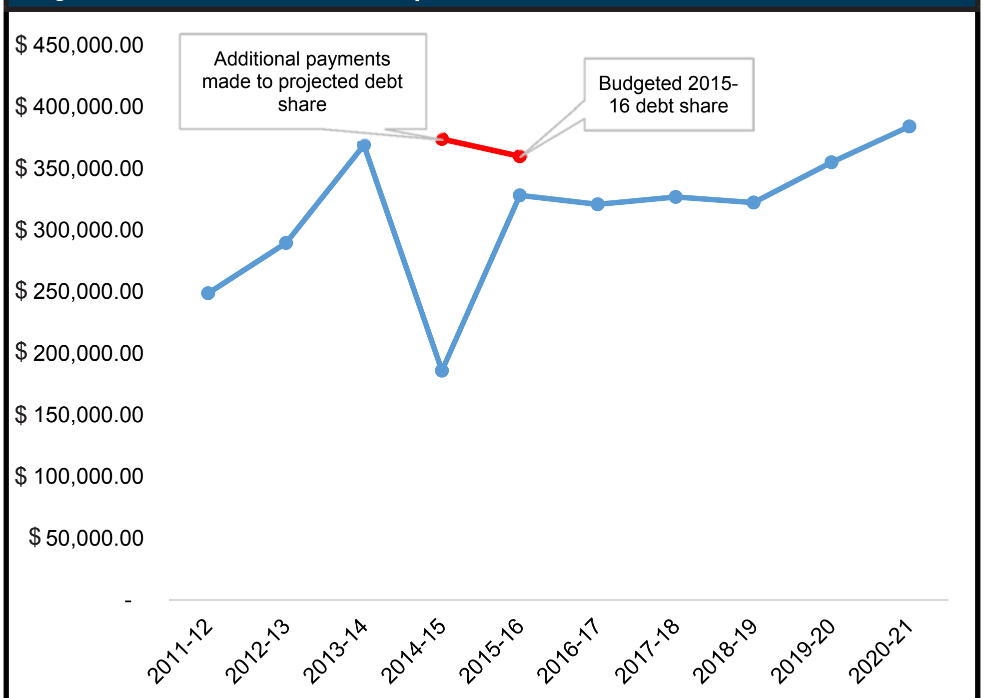
District officials have created a multiyear financial plan. However, it is inadequate because it has not been adopted by the Board and does

[5] Based on District-provided information and projections from the District's financial advisor.

not address projected increases in the District's debt share as noted above.[6] As shown in Figure 2, the District's estimated debt share is projected to increase by 76 percent, from approximately $186,000 in the 2014-15 fiscal year, to approximately $328,000 for the 2015-16 fiscal year due to principal and interest on approximately $5.6 million of additional bonds, an additional $96,000 bond anticipation note and decreasing State aid. To stabilize the effect of this future increase, the District made increased debt payments on its debt share totaling approximately $374,000 in the 2014-15 fiscal year and conservatively budgeted for the increased debt share in 2015-16 (see Figure 2). Furthermore, the debt share is estimated to increase by an additional 17 percent to approximately $384,000 in the 2020-21 fiscal year due to anticipated bonds to be issued for future capital projects and decreasing State aid.

District officials have not factored this large increase in the estimated debt share into the District's multiyear financial plan. For example, the District has not funded a capital reserve to use for future expenditures or projects instead of issuing additional debt. Based on the District's multiyear financial plan, the District currently does not have, and is not anticipating, adequate fund balance levels to sustain the long-

Figure 2: District's Debt Share by Fiscal Year



Data does not incoporate any cost savings from the closing of the former elementary school building in 2012-13 or interest earnings.

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[6] The District's debt share is the total current fiscal year debt payment minus State aid.

term increase in its estimated debt. Therefore, fund balance will not be available to minimize the impact that increased debt costs will have on taxpayers.

In addition, there are a number of economic and environmental factors which could significantly affect the District's overall financial condition. For example, the District's total number of enrolled students has decreased significantly from the 2010-11 to the 2014-15 fiscal year by a total of 68 students (9 percent). There is the likely possibility that this trend of declining enrollment will continue in the future, which could have a significant impact on the District's State aid and its overall financial condition. Additionally, the largest employer within the District, Wells College (College) located in the Village of Aurora, is a major economic engine within the region. The College, not unlike the District, has faced recent economic challenges which caused it to institute layoffs and salary freezes. The District's own financial condition could be impacted by decreased enrollment and revenues, should the College's financial outlook change for the worse.

The District's lack of adequate multiyear financial or multiyear capital plans inhibits District officials' ability to effectively manage the District's finances and increasing debt. Additionally, by not developing effective and useful written long-term plans, the District risks not adequately preparing itself for any potential adverse future economic or environmental changes. Adequate multiyear planning is increasingly important due to legislative changes in recent years which limit school districts' ability to finance their operations through tax increases. Consequently, District officials need to remain cognizant of the future when planning strategically.

Recommendations

District officials should:

1. Continue to closely monitor the District's financial condition and identify opportunities for cost savings and efficiencies.

2. Develop and adopt a multiyear financial and capital plan for a three- to five- year period that addresses the District's increasing debt, use and funding of reserves and any economic or environmental factors.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Southern Cayuga Central School

2384 State Route 34B
Aurora, New York 13026

Patrick M. Jensen
Superintendent of Schools

315 364-7211
fax 315 364-7863

November 24, 2015

Mr. Edward V. Grant, Chief Examiner
Division of Local Government and School Accountability
Office of the State Comptroller
The Powers Building
16 West Main Street, Suite 522
Rochester, NY 14614

Dear Chief Examiner Grant:

On behalf of the school Board and the Southern Cayuga community, I would like to thank your staff for a positive and affirming audit.

The Board of Education and Administration have instituted cost-saving actions and effective financial management which improved the economic outlook for the district over the past six years. Despite the extraordinary fiscal challenges that schools throughout New York have faced during that period, the district demonstrated fiscal restraint, which led to significant reductions in staffing (nearly 25 positions since 2009), reduction in operating expenses with the closure of an elementary school in 2012, and extensive lighting upgrades in 2015 to increase energy efficiency and lower utility costs.

The Board of Education and Administrative team will continue to act proactively, demonstrate fiscal responsibility, and implement additional cost-saving measures. As a result of our combined efforts, the district shifted from an operating deficit to an operating surplus in 2013. In addition, the district replenished reserves to an appropriate level which improved our ability to plan for the future. I commend the Board of Education, the community, and all staff members for building a sustainable fiscal situation despite the challenges of the GEA (Gap Elimination Adjustment) and the implementation of the 2% tax cap legislation. During the past year, Southern Cayuga was shorted more than $564,000 in state aid, and over $7 million since 2010.

Since arriving in the district in 2012, I have been impressed with the Board's commitment to infrastructure repair, bus replacement, debt management, reserve strategy, and long-range planning. Beginning in 2010, the district worked closely with Fiscal Advisors and King + King Architects to develop capital improvement projects that would address infrastructure needs and mitigate the swings in local tax share for capital projects. Fluctuations noted in the audit report were anticipated and appropriately budgeted for as noted by the actual expense. The Board's commitment to fiscal restraint has allowed year-end operational savings to be applied to additional short-term debt payments which decreased principal and borrowing costs, thereby limiting fluctuations in taxes. We also expect the additional payments will mitigate the anticipated local debt share increase in 2020-21.

The district diligently planned capital projects based on infrastructure needs identified in the 2010 SCCS Building Conditions Survey. District officials are currently reviewing a draft of the 2015 Building Conditions Survey from which they will develop a long-range capital improvement plan in 2016. The plan will take into account the financial implications of debt service and include a capital reserve strategy. The plan will be formally adopted by the Board upon completion.

As a district, we have made tremendous progress in regards to strategic planning, especially in the areas of capital improvements, bus purchasing, reserve strategy, stabilizing debt service, and reduced enrollment. We support the concept of a five-year plan and recognize the importance of formal adoption of each of these key elements by the Board of Education. I believe the district will benefit from even greater transparency through this process, as each of these is a critical component of a multiyear financial plan. As the economic outlook has stabilized in recent years, the district is better positioned to utilize trend data in regards to expenses and revenue sources to develop an effective and realistic long-term financial plan.

Thank you for your analysis and advice. The formal CAP (Corrective Action Plan) is attached.

Sincerely,

Patrick M. Jensen
Superintendent of Schools

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Southern Cayuga Central School District
Financial Condition CAP
November 24, 2015

For each recommendation included in the audit report, the following is our corrective action taken or proposed. For recommendations where corrective action has not been taken or proposed, we have included the following explanations.

Recommendations

1. **Financial Condition**- The district will continue to monitor the district's financial condition and identify opportunities for cost savings and efficiencies. The process will include line-by-line analysis of expense and revenue trends, continued work to decrease utility and general operational costs, continue to demonstrate fiscal restraint, and to address concerns regarding declining enrollment and other environmental factors that impact revenues, especially state aid. The goal of the Board of Education is to minimize tax rate fluctuations and the adoption of a multiyear financial plan in 2016.

2. **Multiyear Planning-** The district recently adopted a multiyear strategic plan guiding the development of reserves. Currently, the district facilities committee is developing a long-range capital plan, which should be completed and then adopted by the Board of Education in 2016. The district will continue to work with Fiscal Advisors in regards to long-range planning and stabilization of debt service, specifically minimizing fluctuations in local share obligations. When the capital plan is adopted by the Board of Education, a key component will be a realistic debt service payment schedule.

Respectfully submitted,

Patrick M. Jensen
Superintendent of Schools
Southern Cayuga CSD

www.southerncayuga.org

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to review the District's financial management for the period July 1, 2010 through August 6, 2015. To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials and employees to gain an understanding of the District's budget process and financial operations.
- We reviewed financial information provided to the Board to determine the types of reports the Board receives.
- We reviewed the District's relevant policies and procedures, including the guiding principles for reserves, for adequacy and to gain an understanding of the District's financial operations.
- We reviewed Board meeting minutes and resolutions from 2010-11 through 2014-15 to gain an understanding of District operations.
- We reviewed adopted budgets from 2010-11 through 2015-16 to gain an understanding of the District's budget trends and practices.
- We reviewed the general fund's results of operations for fiscal years 2010-11 through 2014-15 to gain perspective on the District's financial condition.
- We reviewed the District's multiyear financial plan for adequacy.
- We reviewed District reserve accounts and related expenditures to determine what types of reserves the District has, whether they were being funded and if the funding was adequate for the District's needs.
- We reviewed the District's debt projections provided by its financial advisor to determine historical payments and projected trends in the District's share of debt.
- We inspected the District's 2014-15 tax roll summary to determine what the District's tax base was composed of.

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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