



Cleveland Hill Union Free School District Financial Management

Report of Examination

Period Covered:

July 1, 2013 – July 12, 2017

2017M-235



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2018

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 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 Cleveland Hill Union Free 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 Cleveland Hill Union Free School District (District) is located in the Town of Cheektowaga in Erie County. The District is governed by an elected five-member Board of Education (Board) which is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer and is responsible, along with the Board and the Business Manager, for the District's financial management.

The District operates three schools with approximately 1,250 students and 220 employees. The general fund budgeted appropriations for the 2016-17 fiscal year were approximately \$31 million, which were funded primarily with State aid, sales tax and real property taxes.

Objective

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

- Did the Board and District officials properly manage District finances by ensuring budgets were realistic and by properly planning for and using fund balance?

Scope and Methodology

We examined the District's financial management practices and records for the period July 1, 2013 through July 12, 2017.

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 C 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. While District officials disagreed with certain findings in our report, they agreed with our recommendations and indicated they planned to initiate corrective action. Appendix B includes our comments on issues raised in the District's response.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of 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, 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

The Board, Superintendent and Business Manager are responsible for properly managing finances, adopting realistic budgets and ensuring fund balance does not exceed the amount allowed by law. Fund balance represents the cumulative residual resources from prior years that can, and in some instances must, be used to lower property taxes for the subsequent year. A school district may retain a portion of fund balance, referred to as unrestricted fund balance, but must do so within the statutory limit of 4 percent of the subsequent year's budget as established by the New York State Real Property Tax Law. School districts may also establish reserve funds to restrict reasonable portions of fund balance for specified purposes in compliance with applicable statutes.

The Board and District officials did not properly manage finances, ensure budgets were realistic or properly plan for and use fund balance. Officials overestimated appropriations each year by an average of \$3.7 million (12 percent). These budgeting practices resulted in the District's unrestricted fund balance exceeding the 4 percent statutory limit by 13 to 16 percentage points. Furthermore, when unused appropriated fund balance is added back, the recalculated unrestricted fund balance exceeded the statutory limit by amounts ranging from \$7.2 million to \$7.6 million, or 23 to 25 percentage points. As a result, the tax levy was higher than necessary. Additionally, four reserves totaling approximately \$1.6 million were overfunded and a debt reserve (\$493,000) was not being used as required.

Budgeting and Fund Balance

The Board and District officials are responsible to ensure the annual budget includes realistic estimates of expected revenues, appropriations and the use of fund balance. Accurate budget estimates help ensure that the real property tax levy is not greater than necessary.

During 2013-14 through 2015-16, the District appropriated fund balance annually averaging \$3.1 million to help finance budgeted appropriations (Figure 1). When fund balance is appropriated as a funding source, it reduces the amount of fund balance subject to the statutory limit and the expectation is that there will be a planned operating deficit in the following year equal to the amount of fund balance appropriated. However, because officials overestimated appropriations by an average of \$3.7 million (12 percent) each year and, as a result, experienced annual operating surpluses, the annual amounts of appropriated fund balance were not used to finance operations.

The appropriations that were annually overestimated primarily included employee benefits (by \$1.2 million, or 33 percent), instructional and administrative salaries (by \$764,000, or 20 percent) and special education (by \$618,000, or 17 percent). Because some of these costs are determined by contractual agreements, anticipated expenditures should be reasonably estimated and not consistently overestimated. However, officials indicated they intentionally budgeted conservatively and overestimated these appropriations.

Figure 1: Unrestricted Fund Balance at Year-End			
	2013-14	2014-15	2015-16
Beginning Fund Balance	\$12,790,000	\$13,460,000	\$14,030,000
Add: Operating Surplus	\$670,000	\$570,000	\$620,000
Ending Fund Balance	\$13,460,000	\$14,030,000	\$14,650,000
Less: Reserves and Encumbrances	\$4,590,000	\$5,540,000	\$5,840,000
Less: Appropriated Fund Balance for the Subsequent Year	\$3,410,000	\$3,240,000	\$2,750,000
Unrestricted Fund Balance at Year-End	\$5,460,000	\$5,250,000	\$6,060,000
Subsequent Year's Budgeted Appropriations	\$30,640,000	\$31,030,000	\$31,040,000
Unrestricted Fund Balance as a Percentage of Subsequent Year's Budget	18%	17%	20%

These budgeting practices resulted in unrestricted fund balance exceeding the 4 percent limit by 13 to 16 percentage points. Furthermore, annually appropriating fund balance that is not needed to finance operations is, in effect, a reservation of fund balance that is not provided for by statute and a circumvention of the statutory limit imposed on the level of unrestricted fund balance. It is misleading to District residents because they are under the impression that surplus funds will be used to reduce their taxes or put to other proper use. When unused appropriated fund balance is added back, unrestricted fund balance actually exceeded the statutory limit by 23 to 25 percentage points (Figure 2).

Figure 2: Unused Fund Balance			
	2013-14	2014-15	2015-16
Unrestricted Fund Balance at Year-End	\$5,460,000	\$5,250,000	\$6,060,000
Add: Appropriated Fund Balance Not Used to Fund Subsequent Year's Budget	\$3,410,000	\$3,240,000	\$2,750,000
Recalculated Unrestricted Fund Balance	\$8,870,000	\$8,490,000	\$8,810,000
Recalculated Unrestricted Fund Balance as a Percentage of the Subsequent Year's Budget	29%	27%	28%

Subsequent to our audit fieldwork, we contacted officials to determine the 2016-17 operating results and found that the District reported unrestricted fund balance as of June 30, 2017 totaling 20 percent of the subsequent year's budget, the same percent as the previous year. Therefore, fund balance continued to exceed the statutory limit by 16 percentage points as of June 30, 2017.

We also compared the adopted 2017-18 budget to the last three completed years and found the budget was consistent with prior years' trends, also resulting in a projected continuation of operating surpluses. While the District has consistently realized operating surpluses and retained excess fund balance, it also levied real property taxes averaging \$12.2 million from 2013-14 through 2016-17. While this levy has decreased by approximately \$129,000 (1 percent) from 2013-14 through 2016-17, officials could have adopted more accurate budgets and then reduced the levy even further by using the District's excess funds for the residents' benefit.

While it is prudent to provide for unforeseen circumstances, maintaining excessive levels of fund balance and using overly conservative and unrealistic budget estimates result in the tax levy being higher than necessary.

Reserves

As of June 30, 2016, the District reported eight general fund reserves totaling approximately \$5.5 million. While the District reasonably funded the employee benefit accrued liability reserve (\$2.5 million) and capital reserve (\$908,000), the retirement contribution, repair, workers' compensation and unemployment reserve balances, totaling approximately \$1.6 million, were overfunded.¹ In addition, the debt reserve totaling approximately \$493,000 was not being properly used to pay related debt.

Retirement Contribution Reserve – GML authorizes the Board to establish this type of reserve to pay retirement contributions for employees covered by the New York State and Local Retirement System. The balance of this reserve as of June 30, 2016 was \$683,000, which was twice the District's annual average contribution of \$292,000 over fiscal years 2013-14 through 2015-16. However, the District did not expend money from this reserve during the same period because it consistently levied taxes to pay for these costs instead of using the reserve.

Repair Reserve – GML authorizes the establishment of a repair reserve to fund certain repairs to capital improvements or equipment that must not occur annually or at shorter intervals. Voter authorization

¹ We discussed certain other minor deficiencies with respect to the reserves with District officials.

is required to fund this reserve. The District maintains a repair reserve that was established in 2002-03 and, as of June 30, 2016, this reserve totaled \$504,000. The District has not used this reserve and, with no plan for funding or using the funds, it is unclear whether the level of funding is appropriate.

Debt Reserve – Bond proceeds not expended for the purpose for which they were issued and related interest earnings are required to be set aside in a mandatory debt reserve and used for the related debt service principal and interest payments. The reserve should be reported in the debt service fund, which is separate from the general fund. However, the District accounted for and reported a debt reserve in the general fund that, as of June 30, 2016, totaled approximately \$493,000. For the past three years, the balance in this reserve has not changed, other than additions for interest. Instead, the District budgets and levies taxes for the related debt payments which totaled approximately \$2.1 million in 2016-17. As a result, the District is not properly using these funds to pay the related debt as required.

Workers' Compensation Reserve – GML authorizes the establishment of this type of reserve for payments of compensation and benefits, and medical and hospital costs based on workers' compensation claims, rather than paying annual premiums. This reserve had a reported balance of \$304,000 as of June 30, 2016. The balance is twice the District's three-year average annual workers' compensation costs of \$152,000, which have been budgeted for and paid out of the general fund. Therefore, we question the reasonableness of the amount in this reserve.

Unemployment Insurance Reserve – GML authorizes the establishment of this type of reserve to reimburse the New York State Unemployment Insurance Fund for unemployment benefits paid to claimants on the District's behalf. As of June 30, 2016, the balance in this reserve was \$101,000. The balance is 12 times the District's three-year average unemployment costs of \$8,000, which have been budgeted for and paid out of the general fund. As such, we question the reasonableness of the amount held in this reserve.

There is no evidence that officials have used reserves for their intended purpose because the District routinely levied taxes for expenditures that could be funded with money from reserves. If the District intends to continue to levy taxes to pay for expenditures that could be paid for with reserve funds, we question the purpose of maintaining reserves in excess of amounts needed to fund unplanned increases in related expenditures.

It is prudent financial management to provide some cushion against unforeseen events. This can be accomplished by holding unrestricted money in fund balance, budgeting conservatively or by using reserves. However, in this case, the District was budgeting in an overly conservative manner while holding more fund balance than allowed and keeping excess funds in reserves. This combination of practices resulted in taxes being higher than needed for District operations.

Recommendations

The Board should:

1. Develop realistic estimates of appropriations and the use of fund balance in the annual budget.
2. Ensure that unrestricted fund balance is in compliance with the statutory limit and develop a plan to use excess funds in a manner that benefits District residents. Such uses could include financing sources for:
 - Funding one-time expenditures;
 - Funding needed reserves; and
 - Reducing District property taxes.

District officials should:

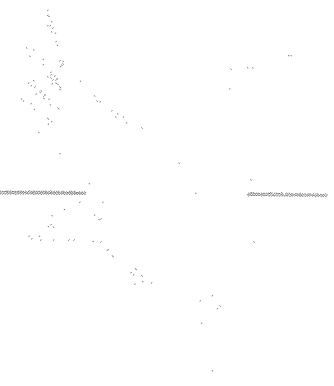
3. Properly report the debt reserve in the debt service fund and use the funds to pay related debt service as required.
4. Transfer any excess reserve funds to unrestricted fund balance (where allowed by law) or to other reserves established and maintained in compliance with applicable statutes.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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February 8, 2018

Mr. Jeffrey D. Mazula, Chief Examiner
Office of the State Comptroller
Buffalo Regional Office
295 Main Street, Suite 1032
Buffalo, NY 14203-2510

Dear Mr. Mazula:

On behalf of the Cleveland Hill UFSD Board of Education and Administration, we would like to thank the State Comptroller's Office for the thoughtful and insightful findings and audit report. We were impressed by the attention to detail and professionalism of the auditors. The OSC audit process was again a great opportunity for us to learn while reflecting on our current strategies and practices.

While working diligently to enhance the Cleveland Hill Union Free School District, we routinely evaluate the efficacy of our practices. Meeting the needs of our students and community's expectations is a primary goal. As is protecting the investment our community has made into the district over the past decades by maintaining financial solvency into the future. Pleased that the Comptroller's audit did not identify any instances of fraud or misappropriation, nor did the audit identify any instances of waste or misuse, we feel compelled to offer some clarification of our current fund balance and reserve levels, and respond to a few items in the OSC report that we respectfully disagree with.

In July 2008, the district recognized approximately 1.3 million dollars in excess cost aid. As the district began developing and implementing plans to utilize this money, the New York State budget crisis struck. These state budget problems resulted in destructive cuts to public schools across the state and here at Cleveland Hill. Further, at the same time, predictions for future state aid increases were significantly less than what was required by the Campaign For Fiscal Equity Court Decision to maintain current programming and services.

Disarray and mixed signals from Albany showed no relief to these funding problems in the future. With even deeper cuts in state aid, the initiation of the Gap Elimination Adjustment (GEA) and increased unfunded mandates, public school districts across the state found themselves approaching a financial cliff. We were fortunate to have recognized the 1.3 million dollars in aid just prior to this challenging and pivotal time.

The chart below shows the \$8,289,284 deducted from the Cleveland Hill UFSD through the GEA and does not reflect the other aid reductions and unfunded or underfunded mandates.

Gap Elimination Adjustment	
School Year	State Aid Reduction
2010-11	\$ (1,250,107)
2011-12	\$ (2,208,994)
2012-13	\$ (1,835,894)
2013-14	\$ (1,492,344)
2014-15	\$ (1,112,209)
2015-16	\$ (389,736)

The Cleveland Hill Union Free School District is significantly behind the full phase-in formula as determined by New York State. Aid received from 2007-2008 through 2017-2018 amounts to \$89,417,851 for the district. Had Cleveland Hill received the full phase-in amounts as initially prescribed by law, this amount would have equated to \$128,876,869. This difference of almost \$40 million dollars in just over 10 years has forced this district, along with others, to make challenging decisions, difficult cuts and to become increasingly reliant on fund balance and the local tax levy to maintain operations.

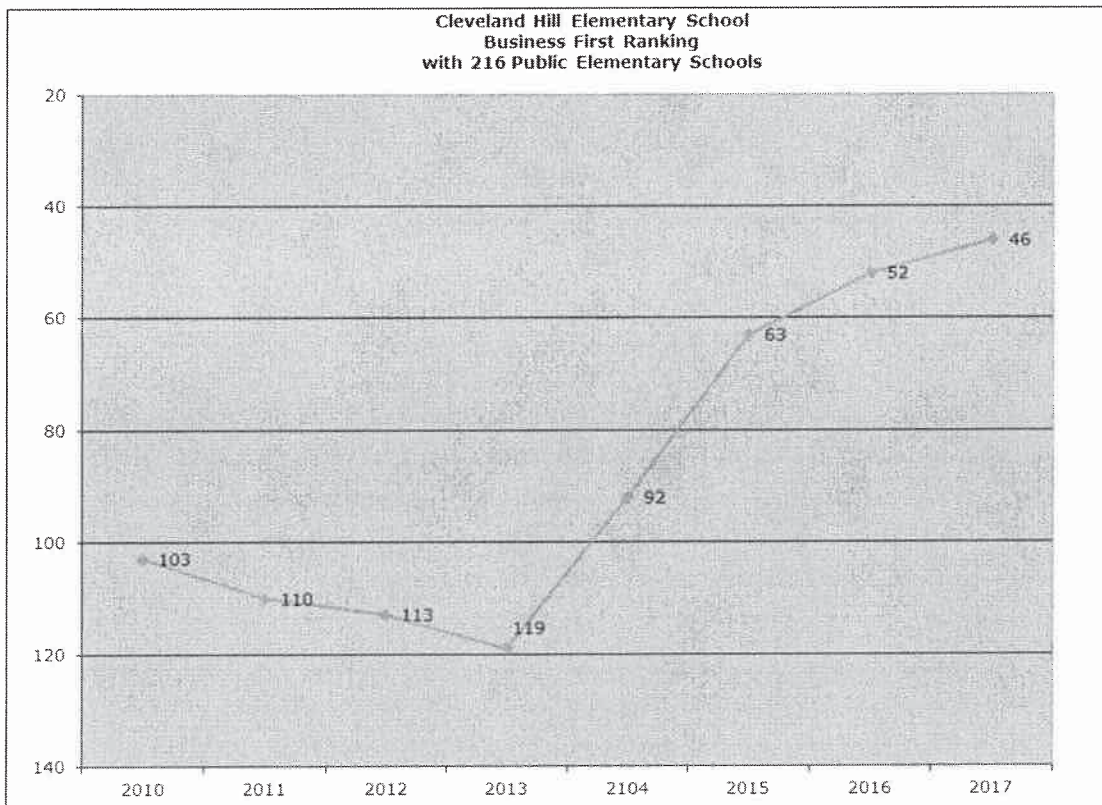
School District: <u>Cleveland Hill</u>				
County: <u>Erie</u>				
Enacted State Budget/School Year	Formula Base	Current Year Aid	Full Phase-in Level	
2007-08	\$6,162,090 ⁽¹⁾	\$7,425,800	\$12,480,644 ⁽¹⁾	
2008-09	\$6,162,090 ⁽¹⁾	\$8,019,438	\$11,115,019 ⁽¹⁾	
2009-10	\$6,162,090 ⁽¹⁾	\$8,027,443	\$12,264,246 ⁽²⁾	
2010-11	\$6,162,090 ⁽¹⁾	\$8,027,443	\$12,134,650 ⁽²⁾	
2011-12	\$8,027,443 ⁽²⁾	\$8,027,443	\$12,706,457 ⁽³⁾	
2012-13	\$8,027,443 ⁽²⁾	\$8,108,930	\$12,820,828 ⁽³⁾	
2013-14	\$8,109,340 ⁽⁴⁾	\$8,133,668	\$12,332,657	
2014-15	\$8,133,668 ⁽⁵⁾	\$8,279,197	\$11,510,219	
2015-16	\$8,281,616 ⁽⁶⁾	\$8,312,257	\$10,897,482	
2016-17	\$8,312,257 ⁽⁷⁾	\$8,412,775	\$10,245,097	
2017-18	\$8,412,943 ⁽⁸⁾	\$8,643,457	\$10,369,570	
	\$81,953,070	\$89,417,851	\$128,876,869	

Only school districts with healthy reserves and fund balance have been able to weather a financial crisis of this magnitude and still be able provide the quality education that their students and community expect. Districts heavily reliant on state aid like Cleveland Hill found themselves in an even more vulnerable position as the state is no longer funding public education anywhere near the 50% level, thus shifting the cost to the local tax payer.

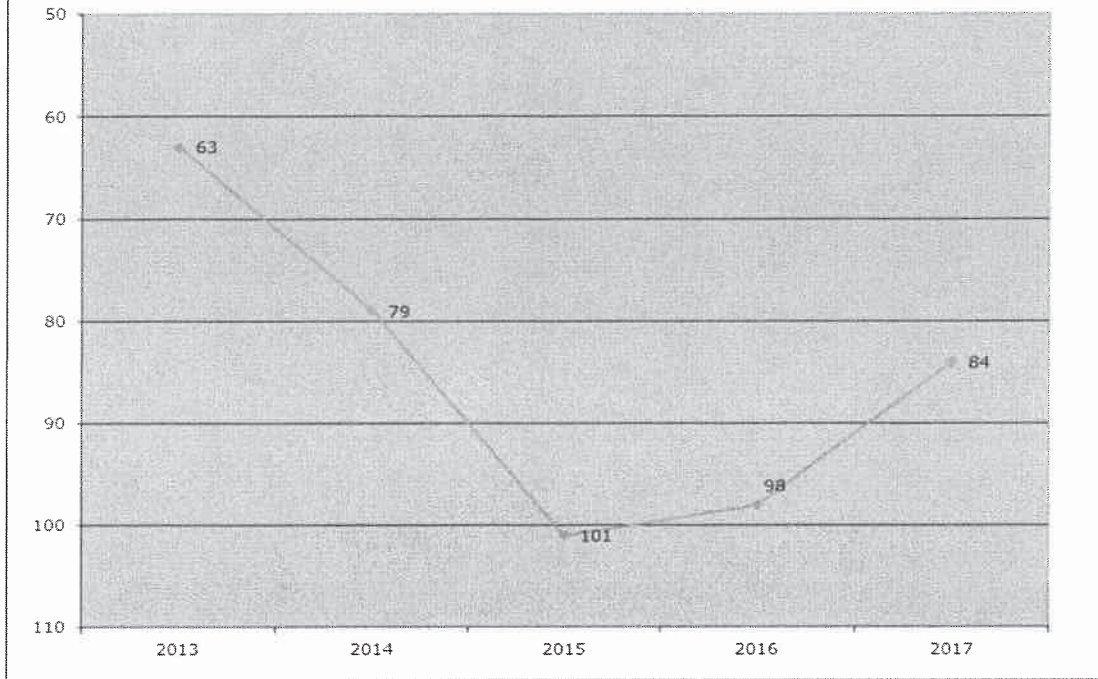
With the reality of an enduring financial crisis upon us, the school community made protecting our long-term financial solvency a top priority. The commitment to protecting our residents' investment and educational programming for our students included much more than maintaining the aforementioned 1.3 million in excess cost aid. It also included several very difficult and challenging decisions to downsize staffing and programming in several areas. In an attempt to endure an extended financial crisis, we reduced 28.1 staffing FTE since the 2008-2009 school year. This included a retirement incentive that resulted in a reduction of 10 staff members alone. Our unemployment insurance reserve is funded should the district need to go down this path in the future once again. We explored, created and successfully implemented various cost containment strategies that allowed us to expand the quality educational experience during challenging times.

In December 2013, we received the report from our 2011 State Comptrollers audit which reported our unappropriated fund balance to be 15%. Recognizing that this is higher than the recommended 4%, the district began discussing suitable strategies to bring this number down. District officials implemented a plan that focused on the following areas:

- **Capital Improvements Project as determined by the BCS.** - A 10.9 million dollar capital project is presently underway. When the Board of Education communicated this project to the community for consideration, they clearly articulated that there would be no impact on the local tax levy, and that fund balance with reserves would be appropriated to cover 100% of the local share.
- **Strategic plan to improve student achievement levels.** – Over a two-year planning period, the district developed and implemented *Project Achieve*, a three-year strategic plan to improve student achievement. This plan invested approximately \$750,00 of fund balance as one-time expenditures to finance the plan. The strategically effective use of this money has generated aid from these one-time expenditures that has now allowed us to initiate the next three-year plan, *Project Achieve “2”*. (Please note that the following data sets demonstrate the remarkable effectiveness of this plan. Cleveland Hill’s student achievement indexes have been trending up at a notable rate.)



Cleveland Hill Middle School
Business First Ranking
with 151 Public Middle Schools



Test	2010-11 Percentile Rank	2011-12 Percentile Rank	2012-13 Percentile Rank	2013-14 Percentile Rank	2014-15 Percentile Rank	2015-16 Percentile Rank	2016-17 Percentile Rank
Grade 3 ELA	40.83	42.02	79.83	70.09	53.45	80.87	71.68
Grade 4 ELA	45.61	46.02	62.28	81.82	58.93	69.37	59.26
Grade 5 ELA	58.56	40.00	56.88	53.33	70.19	62.14	71.72
Grade 6 ELA	49.38	59.52	47.06	51.28	65.38	85.53	78.95
Grade 7 ELA	60.53	52.56	60.49	46.25	51.90	58.97	75.64
Grade 8 ELA	59.74	48.72	59.49	37.97	54.32	60.76	57.14
Frequency (out of 6) in Top 50% of Erie County	3.00	2.00	5.00	4.00	6.00	6.00	6.00
% of being in Top 50% of Erie County	50%	33%	83%	67%	100%	100%	100%

Test	2010-11 Percentile Rank	2011-12 Percentile Rank	2012-13 Percentile Rank	2013-14 Percentile Rank	2014-15 Percentile Rank	2015-16 Percentile Rank	2016-17 Percentile Rank
Grade 3 Math	37.50	33.61	51.69	68.38	68.10	66.96	61.95
Grade 4 Math	37.72	53.10	49.56	90.00	61.61	65.77	80.56
Grade 5 Math	63.06	43.64	81.65	52.38	67.31	66.99	59.60
Grade 6 Math	55.56	42.86	34.12	46.15	51.95	76.32	75.00
Grade 7 Math	50.00	61.54	59.26	48.75	51.90	65.38	73.08
Grade 8 Math	59.74	53.85	40.51	62.03	50.63	75.00	64.94
Frequency (out of 6) in Top 50% of Erie County	4.00	3.00	3.00	4.00	6.00	6.00	6.00
% of being in Top 50% of Erie County	66%	50%	50%	66%	100%	100%	100%

- **Fund Appropriated Reserves**

- **Capital Reserve Fund** - Immediately following the sale of the district’s Community Drive property, the Board of Education placed \$750,000 in our Capital Reserve Fund. These funds have since been applied to help alleviate the local tax share of our current capital project.
- **Employee Benefits Reserve** - The current report notes that the district’s balance in the Retirement Contribution reserve is twice the annual average contribution. Though this is correct, we do not feel that this figure is excessive should state funding continue to decline. Given the current budget and financial forecasts for the state, this is an eventuality that all districts and municipalities have been advised to prepared for.
- **Tax Certiorari Reserve** - the district has completely depleted the tax certiorari reserve. This is a result of careful monitoring to determine future need. The balance sits at \$0 and those funds have been used to lower tax levy increases.

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Reduce/minimize local tax levy – Since the Two Percent Tax Cap has been initiated, Cleveland Hill has been 10.07% below our allowable, legislated levy limit. We have lowered our tax levy two consecutive years in 2015 and 2016. (The rationale for not continuing this trend in 2017 is outlined later in the document.) The fact that we have consistently been below the tax levy limit is a reflection of the district’s commitment to contain spending and control taxes, while extending the financial health of the school district as long as possible. Our Board of Education and community are regularly updated and informed of reserves and fund balance levels, and have supported our approach to strategically spending it down. This would not be prudent or possible if it were not for the careful plan to maintain and periodically use reserves. For the meantime, this has allowed us to effectively avoid some of the draconian cuts and tax levy increases that other districts are forced to implement.

Local Tax Levy Limit			
School Year	Allowable by Law	Actual	Difference
2012-13	2.36%	1.50%	-0.86%
2013-14	4.76%	3.49%	-1.27%
2014-15	1.46%	0.73%	-0.73%
2015-16	2.40%	-1.00%	-3.40%
2016-17	1.90%	-0.99%	-2.89%
2017-18	2.90%	1.98%	-0.92%
			-10.07%

While the district has initiated each of the bulleted strategies to effectively utilize fund balance listed above, several of the cost cutting and containment strategies implemented at the same time resulted in further district savings and a temporary increase in fund balance. We seek to maximize our revenues by targeting opportunities that generated aid back to the district, as well as exploring opportunities to contain spending. Specifically:

- **A retirement incentive for teachers** – This incentive was collectively bargained and implemented four years ago. This has resulted in significant savings to the district.
- **Initiated a marketing plan** – This effort was successful in attracting students to Cleveland Hill who had chosen to attend other private, parochial and charter schools.
- **Restructuring our District Professional Development Plan to maximize aid.** – In addition to Project Achieve, our district PD plan prioritizes using resources that generate aid.

- **Further restructuring of programing and staffing** – Every district program and practice is regularly evaluated for efficiency and effectiveness. These efforts have resulted in several changes to improve efficacy across the organization.
- **The implementation of two federal grants (MTIP, School Climate Transformation).** Together these five-year competitive grant awards have brought in approximately \$216,000 a year. Both of these grants will be completed in 2019, when the district will be expected to cover all expenditures. We will explore future grant opportunities in these areas.
- **Refinancing of debt.** Our Fund Balance allowed for a strong bond rating which resulted in a favorable interest rate when refinancing. This allowed the district to recognize an average annual savings of \$181,668, for a total savings of \$1,453,350 over an 8-year period.
- **Sold a district property for \$900,000.** - Using a competitive bid process, we sold the district’s Community Drive property in 2016.

Our increase in fund balance over the last five years was not deliberate, but a result of our work to maximize and seek new sources of revenue. At the same time, our plans to control spending and expand efficiencies worked as well.

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Note 3
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Future opportunities to generate fund balance will be increasingly difficult for Cleveland Hill. We carefully consider applications of our current fund balance while doing long-term budget planning and forecasting. Recognizing that our fund balance is higher than recommended, it is our responsibility to utilize it in a manner that does not accelerate the fiscal insolvency of the district.

See
Note 1
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Below is a list of some rationale considered by school officials in regards to the future appropriation of the fund balance:

- Indications that midyear cuts are a possibility from the Governor’s office
- Repeated reductions of state tax revenue projections
- Steep federal cuts in Medicaid funding
- Warnings from the NYS Comptroller’s office that state revenues are trending downward and that tough fiscal decisions could lie ahead
- Failure of the state to provide predictable, sustainable and dependable funding projections for short and long-term budget planning
- Increases in Foundation Aid do not keep pace with state and federal mandated expenses
- Recent direction given by the NYS Comptroller urging local governments and school districts to be fiscally conservative in drafting their budgets as economic uncertainty and the potential domino effect of federal funding cuts
- The fact that our fund balance will be reduced significantly when the local share of our capital project is paid
- Facing very similar challenges as municipalities, the great discrepancy between the recommended fund balance levels allowed for municipalities compared to schools is concerning. Our current level of fund balance is in line with the two-months of operating expenses suggested to municipalities

The New York State Government Finance Officers Association recommends that, “municipalities maintain a budget reserve of at least two months of annual total expenditures as insurance against unanticipated expenditures or revenue shortfalls”.

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- Locally elected officials reporting a “direct assault on public education” is currently underway. This is of grave concern to those who are responsible for public education and the students we serve. We believe that responsible appropriations of fund balance will support district interests for as long as

possible, as various lobbyist groups in Washington and Albany continue their efforts to syphon money and support for public education.

- Freezing of state aid in November as proposed by the Governor would further limit future revenues.
- Our current fund balance allows for a more favorable bond rating, thus saving tax payers significant money in interest payments.

Revenues to public education no longer keep pace with expenses, unfunded and underfunded mandates. This situation is confounded by the legislated tax cap and polarizing tax exemptions.

Financial, as well as educational insolvency, is a reality that many public-school districts presently face or will in the future. Our own ability to strategically navigate these financial challenges will continue to diminish as the inevitable depletion of our fund balance and reserves continues. Unless the funding mechanisms for public education are corrected in New York State, Cleveland Hill, with countless other districts will inevitably face the same peril. Evidence of this occurring can now be seen in schools who maintained minimum levels fund balance now being forced to continually cut services, staff and programs to levels that adversely impact their communities.

Our school community has taken a proactive approach to maintaining solvency and sustainability through careful financial planning. Our hope is that New York State provides predictable, sustainable and adequate funding projections for us and other school districts to effectively plan for the future. This would allow school districts to maintain and operate with lower fund balances with confidence into the future.

Cleveland Hill UFSD - CORRECTIVE ACTION PLAN

The Board will:

1. Develop realistic estimates of appropriations and the use of fund balance in the annual budget.
 - a) As districts are not able to end the year with a negative balance it is almost impossible to end the year with a zero balance. This means that there will be some level of excess fund balance generated at the end of the year. The district will continue to work diligently to craft appropriation budgets that ensures the district will not end with a negative balance. We will look for opportunities to budget “closer to the bone” but must be careful so as to not create a situation where we have not adequately budgeted for expenditures.
 - b) The district will implement a plan to routinely budget for use of reserves as well as the actual implementation to spend down those reserves during the year according to the budget document
2. Ensure that unrestricted fund balance is in compliance with the statutory limit and develop a plan to use excess funds in a manner that benefits District residents. Such uses could include financing sources for:
 - Funding one-time expenditures;
 - Funding needed reserves; and
 - Reducing District property taxes
 - a) The district will work towards planning one-time expenditures which will be off-set by increased use of reserves within the budget.
 - b) The district will continue our efforts to not only stay within the cap but to lower when possible

for the benefit of community residents and taxpayers.

District officials will:

3. Properly report the debt service in the debt service fund and use the funds to pay related debt service as required.
 - a) The district is in the midst of a capital project. We are working with financial advisors on the effective utilization of debt service and the part that the reserve plays in the long-term strategy. We are looking at the bond obligation for our current capital project and the long-term payment plan. The Board of Education is planning on using the debt service reserve. We are working with the financial advisors in the most prudent way of accomplishing this.
4. Transfer any excess reserve funds to unrestricted fund balance (where allowed by law) or to other reserves established and maintained in compliance with applicable statutes.
 - a) The district has been proactive in this approach having already liquidated the tax certiorari reserve of \$30,168.38. The capital reserve balance of \$908,000 was transferred to the capital fund after voters approved the measure in an effort to minimize the local tax share of our current capital project. The district will look at other opportunities in the future.

Respectfully Submitted,

Robert C. Polino
Board President

Jon T. MacSwan
Superintendent of Schools

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

The 4 percent limit on a school district's unrestricted fund balance is not a recommended level but a requirement set forth in New York State Real Property Tax Law.

Note 2

We believe the District meant to title this as "Retirement Contribution Reserve," as we indicated in the report that the employee benefit accrued liability reserve was reasonably funded. However, as noted in our report, officials have consistently levied taxes to pay for these costs instead of using the money restricted in this reserve.

Note 3

The Board and District officials overestimated appropriations by an average of \$3.7 million (12 percent) each year. As a result, the spending plan approved by the taxpayers was not realistic and resulted in tax levy amounts being higher than necessary.

Note 4

School districts are statutorily required to maintain unrestricted fund balances at 4 percent or less of the subsequent year's budgeted appropriations. With so much of the budget being used to pay salaries and benefits fixed by contracts, school districts have less uncertainty than municipalities – such as towns or villages – and, therefore, generally need less unrestricted fund balance.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials and reviewed Board minutes and policies to gain an understanding of the procedures for maintaining financial records, monitoring fund balance and developing the annual budget.
- We reviewed three fiscal years (2013-14, 2014-15 and 2015-16) of budgeted appropriations and estimated revenues and compared them to actual results to determine whether budget estimates were realistic.
- We analyzed changes in fund balance, including the use of appropriated fund balance, in the general fund for 2013-14, 2014-15 and 2015-16. We also compared unrestricted fund balance to the subsequent year's budgeted appropriations to determine whether the District was within the statutory limit. We included both appropriated fund balance and unrestricted fund balance in our calculations.
- We reviewed and analyzed the real property tax levy for 2013-14, 2014-15, 2015-16 and 2016-17 to determine whether the District could have lowered the amount of real property taxes levied.
- We reviewed and analyzed 2016-17 actual revenues and expenditures to determine operating results as of June 30, 2017.
- We reviewed the 2017-18 budget and compared it to prior years' results of operations to project whether the District would experience an operating surplus or deficit as of June 30, 2018.
- We identified all reserves and determined whether they were reasonably funded. We also documented the flow of funds in and out of the reserves in 2013-14, 2014-15 and 2015-16.

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 D

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