



Cortland Enlarged City School District Fund Balance

Report of Examination

Period Covered:

July 1, 2015 – January 31, 2017

2017M-65



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2017

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 Cortland Enlarged City School District, entitled Fund Balance. 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 Cortland Enlarged City School District (District) is located in the City of Cortland and the Towns of Cortlandville, Harford, Lapeer and Virgil in Cortland County and the Town of Dryden 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 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 District operates six schools with approximately 2,400 students and 600 employees. The District's budgeted appropriations for the 2016-17 fiscal year are \$49.6 million, which are funded primarily with State aid and real property taxes.

Objective

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

- Did the Board appropriately manage the District's fund balance?

Scope and Methodology

We examined the District's financial records for the period July 1, 2015 through January 31, 2017. We extended our scope back to June 30, 2013 to analyze the District's fund balance and budgeting trends.

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.

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 would initiate corrective action.

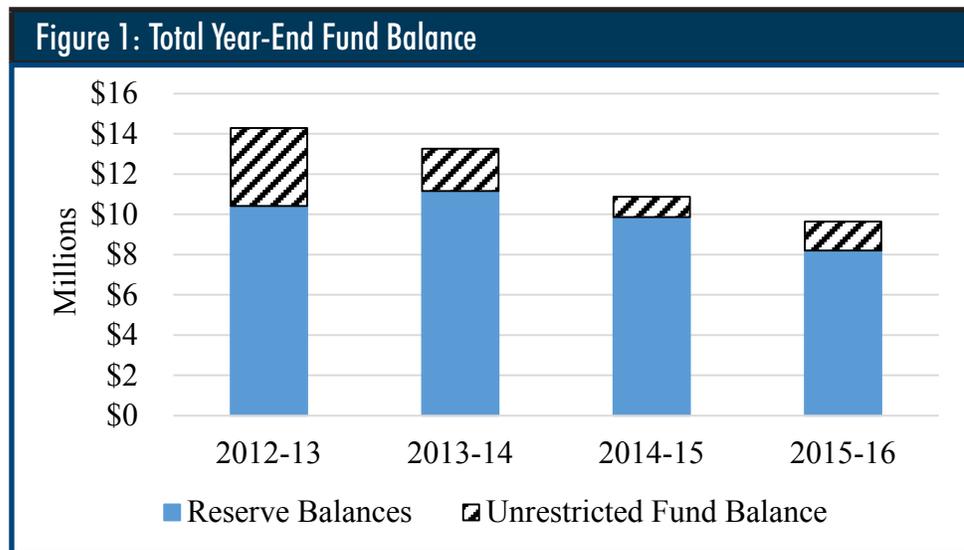
The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings 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.

Fund Balance

The Board and District officials are accountable to District residents for the use of District financial resources and are responsible for effectively planning and managing the District's financial operations. While fund balance can be appropriated in the budget to help finance operations, consistently doing so instead of using recurring revenue sources to finance recurring expenditures will eventually deplete the fund balance to levels that are not sufficient for contingencies and operational cash flow. Sound budgeting practices based on accurate estimates, coupled with prudent fund balance management, help ensure that sufficient funding will be available to sustain operations, address unexpected occurrences and satisfy long-term obligations or future expenditures. A fund balance policy that provides guidelines for the maintenance and use of unrestricted fund balance and reserves can be useful to ensure funds are available to cover unanticipated expenditures or revenue shortfalls.

The Board did not appropriately manage the District's fund balance to ensure financial stability. Total fund balance has decreased \$4.7 million (33 percent), from \$14.3 million as of June 30, 2013 to \$9.6 million as of June 30, 2016 (Figure 1). Approximately 85 percent of the \$9.6 million fund balance is restricted for specific purposes and is not available for general operating expenditures.



During this time, the Board levied real property taxes within the real property tax cap¹ by balancing the budget with appropriated reserves and unrestricted fund balance. For example, the 2016-17 budget appropriated \$4.5 million² of unrestricted fund balance and reserves, or 46 percent of the District’s total fund balance as of June 30, 2016.

District officials said they want to levy taxes within the real property tax cap while maintaining current levels of service. Due to these self-imposed restrictions, District officials balanced the 2013-14 through 2015-16 budgets by appropriating \$13.3 million of fund balance, including reserves of \$10.1 million, as a financing source. Although the District is not using as much fund balance as planned, reserves decreased \$2.2 million (21 percent) and unrestricted fund balance decreased \$2.4 million (63 percent), leaving fund balance at a very low level. While unassigned fund balance³ increased by \$429,000 (91 percent) in 2015-16 to \$902,000, this represents 1.8 percent of 2016-17 appropriations. Continually using fund balance, which is a limited resource, to finance recurring expenditures is poor planning for fiscal stability.

As a result, the District has had average annual operating deficits of approximately \$1.6 million over the past three years, and we project a similar operating deficit for the 2016-17 fiscal year (Figure 2).

Figure 2: Results of Operations

Fiscal Year	2013-14	2014-15	2015-16	2016-17 (Projected)
Revenues	\$41,087,413	\$43,252,560	\$44,807,077	\$43,593,158
Expenditures	\$42,119,311	\$45,633,902	\$46,045,512	\$45,832,790
Operating Surplus/(Deficit)	(\$1,031,898)	(\$2,381,342)	(\$1,238,435)	(\$2,239,632)

Continuing to finance operating deficits with fund balance and reserves has negatively impacted the District’s financial condition. As the availability of fund balance and reserves to finance operations diminishes, real property tax increases or reductions in expenditures will be necessary. District officials will not be able to provide the same level of operations without exceeding the real property tax cap. For example, if 2016-17 operations were funded without the use of fund balance and reserves, the real property tax levy would have exceeded the real property tax cap by \$4.5 million (26 percent).

¹ In 2011, the New York State Legislature enacted a law establishing a property tax levy limit, generally referred to as the property tax cap. Under this legislation, the property tax levied annually generally cannot increase by more than 2 percent or the rate of inflation, whichever is lower, with some exceptions. School districts may override the tax levy limit by presenting to the voters a budget that requires a tax levy that exceeds the statutory limit. However, the budget must be approved by 60 percent of the votes cast.

² This consists of \$500,000 of unrestricted fund balance and \$4 million of reserves.

³ Unassigned fund balance is equal to unrestricted fund balance less the amounts committed and assigned.

Recommendations

The Board should:

1. Establish budgets with sustainable use of fund balance by seeking alternative financing sources where available or reducing expenditures.
2. Adopt a written fund balance policy that provides guidelines for the maintenance and use of unrestricted fund balance and reserves to assist in creating realistic budgets.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Enlarged City School District
"Committed to Excellence"

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Albany, NY 12234

May 23, 2017

Re: Unit Name: Cortland Enlarged City School District
Audit Report Title: Fund Balance
Audit Report Number: 2017M-065

This letter will serve both as a Response and Corrective Action Plan (CAP) for the Cortland Enlarged City School District's recent Comptroller Audit.

We would like to thank your examiners for a thorough and professional process. We agree with the findings associated with the report and will strive to implement the recommendations contained in the document. Specifically, in your recommendations, we are encouraged to reduce our dependence on reserves by increasing revenue and cutting expenses.

We have been reducing our expenses across the budget in several ways. The voters approved an Energy Performance Project resulting in significant energy savings. Retirements are being examined for replacement, re-purpose, or elimination in our continuing efforts to right-size our district's limited resources. We have moved to a bulk-purchasing service for supplies to increase our buying power and reduce costs. The Board of Education recently commissioned a facility use/grade configuration study to maximize the educational opportunities for students while examining the most cost-effective ways to utilize our facilities.

The second recommendation to raise revenue is beyond our control. The District is handcuffed by a flawed Tax Levy Limit formula preventing us from raising revenue by limiting us to a 0% tax levy increase for the last two years. A true 2% tax levy increase would add more than \$340,000.00 per year to the revenue side of our budget.

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Alane M. Van Donsel

The BOE is not willing to penalize the taxpayers by seeking a super-majority and jeopardizing their tax credits. In addition, the Governor and Legislature refuse to meet their obligation to apply the Foundation Aid Formula as mandated by the courts. If the formula were to run as required, the Cortland Enlarged City School District would have received an additional \$3.02 million in 2016-17 and \$1.5 million in 2017-18 and would not have to rely on reserves or raise taxes.

Please know that the Board of Education appreciates the cooperation and work done by your office and will continue to offer fiscally responsible budgets to the community. In addition, our existing Guiding Principles for Reserve Utilization will be formally adopted by the BOE at the July re-organization meeting.

Sincerely,

Michael J. Hoose
Superintendent

Melissa Davis-Howard
President, Board of Education

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials to gain an understanding of the District's financial practices and goals, including the District's budgeting process.
- We analyzed trends in the District's results of operations and use of fund balance as a financing source from fiscal years 2013-14 through 2015-16.
- We reviewed the District's budgets and compared to actual revenues, expenditures and use of fund balance from fiscal years 2013-14 through 2015-16.
- We projected the results of operations for 2016-17 by comparing actual results through January 2016 to actual results as of June 2016. We applied the percentage change to actual results through January 2017 to estimate total revenues and expenditures through June 2017. We also reviewed the District's financial projection for the 2016-17 fiscal year.
- We reviewed the District's real property tax cap calculations and compared them to real property taxes levied from fiscal years 2013-14 through 2016-17.
- We calculated the amount the tax levy would have exceeded the real property tax cap if 2016-17 operations were funded without the use of fund balance and reserves.

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.

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