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STATE OF NEW YORK  
**OFFICE OF THE STATE COMPTROLLER**

May 1, 2007

Lynn Lyndes, Superintendent  
and Members of the Board of Education  
Campbell-Savona Central School District  
8455 County Route 125  
Campbell, NY 14821

Report Number: B2-7-14

Dear Superintendent Lyndes and Members of the Board of Education:

Pursuant to Chapter 417 of the Laws of 2006, the State Legislature authorized the 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. Chapter 417 requires the District's chief fiscal officer to submit the District's tentative budget to the State Comptroller within five days after its preparation. The State Comptroller must examine the tentative budget and make recommendations for any changes that are needed to bring the proposed budget into balance. Such recommendations are made after the examination of the estimates of revenues and expenditures of the District and prior to the approval of the budget.

Our Office has recently completed an audit of the Campbell-Savona Central School District's budget for the 2007-08 fiscal year. The objective of the audit was to provide an independent evaluation of the tentative budget. Our audit addressed the following questions related to the District's budget for the 2007-08 fiscal year:

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

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS) with the exception of reporting views of responsible officials, which were not solicited for this report due to the necessity of providing the District with this time-sensitive information. However, the results of this audit have been discussed with District officials and their comments have been considered in preparing this report. GAGAS requires that we plan and perform our audit to adequately assess the estimates in the tentative budget. Further, those standards require that we understand the internal control structure at the District and the District's compliance with those laws, rules, and regulations that are relevant to preparing estimates for the tentative budget.

To accomplish our objective in this audit, we requested your tentative budget along with other pertinent information. We analyzed the composition of revenues and expenditures to determine if the revenue and expenditure estimates are reasonable and if the budget is structurally balanced, so that recurring costs are financed with recurring revenues. It was not our intent and we do not offer comments on public policy decisions, such as the type and level of services to be provided.

The tentative budget package for the fiscal year ended June 30, 2008 submitted for audit consisted of the following:

- 2007-08 Tentative budget
- Supplementary information

The tentative 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>Real Property Taxes</b>
General Fund	\$17,588,170	\$17,563,170	\$25,000	\$4,328,621

The observations and recommendations resulting from our audit are, to a great extent, influenced by the quality and quantity of materials submitted, and the time between submission and budget adoption. After repeated requests to the District, we finally received the District’s preliminary budget on April 10, 2007 from the Business Manager’s secretary. Because the District was closed for its spring break during the week of April 9<sup>th</sup> to the 13<sup>th</sup>, we were unable to begin our audit until April 17, 2007. The District adopted its budget on April 18, 2007, prior to the issuance of our budget review.

Based on the results of our audit, we found that the District’s significant revenue and expenditure projections in the tentative budget are not reasonable, because the District has not made a provision to repay the outstanding revenue anticipation note (RAN). In addition to the lack of budgetary provision for the RAN, we found additional issues which the Board of Education (Board) should have reviewed and taken action on prior to adopting the budget.

**Revenue Anticipation Note**

Over the past three years, the Board has authorized the issuance of short-term financing to alleviate the District’s cash flow difficulties. RANs represent a temporary source of cash borrowed on the pending collection of certain specific revenues estimated in the annual budget. Local Finance Law, Section 25.00, states that RANs may be issued by a school district in anticipation of moneys to be received in a fiscal year, during the two weeks prior to the commencement of such fiscal year. The law also requires that the revenues pledged in the RAN certificate must either be set aside in a special bank account to be used only for repayment of the RAN, or that an appropriation must be made in the annual budget for repayment. Setting aside dedicated revenues when they are collected ensures that legally restricted cash will be available to meet RAN payments when they become due. Using cash subject to this restriction for purposes other than the redemption of the RANs heightens the risk that sufficient cash resources will not be available for RAN principal payments when due and raises the possibility of default on the loan payment.

On June 19, 2006, the District issued a \$5.78 million RAN to continue District operations. There was no appropriation in the 2006-07 budget to repay this RAN and the District failed to make the required set aside when revenue was received during the year. As a result, the District does not have cash available to repay this debt. The Board plans to use the \$3.25 million deficit-financing bond to pay off the majority of the \$5.78 million RAN upon maturity, leaving a balance of \$2.5 million. We noted that the Board has not included an appropriation in the 2007-08 budget to repay the RAN and has only budgeted for payment of the interest. Because the District has not set aside the revenues pledged for repayment of this RAN, it will have to provide an appropriation for repayment. Because the appropriation was not included in the budget adopted by the Board on April 18, 2007, the Board will have to make amendments to the adopted budget to provide an appropriation for repayment of this debt.

When we brought this discrepancy to the attention of District officials, they stated that they would perform a cash flow analysis to determine if the District would have sufficient cash on hand on June 30, 2007 to pay off the RAN in its entirety. According to a cash flow statement that the District provided us, District officials project that the District will have sufficient unrestricted cash available to pay the outstanding RAN plus interest. Because District officials did not give us this cash flow statement until after they adopted the budget, we did not have a chance to perform audit tests or determine what affect this would have on the District's cash flows during the 2007-08 fiscal year.

The Board should immediately set aside 2006-07 revenues to repay the RAN, or, at the beginning of the 2007-08 fiscal year, it should amend the budget to include an appropriation for RAN principal.

### **Inter-Fund Loans**

District officials have been unable to rectify deficits in the school lunch fund and the special aid fund, which has contributed to the District's financial stress. The District's audited financial statements indicated that the general fund had a deficit of \$3,203,794 on June 30, 2006. In performing our own analysis of the District's financial condition, we concluded that the deficit was approximately \$513,000 greater as a result of inter-fund loans from the general fund to the school lunch and special aid funds.

While the New York State Legislature has authorized the District to issue \$3.25 million in serial bonds that would eliminate the reported deficit, these additional monies will not be sufficient to eliminate the stress put on the District's financial condition by these inter-fund loans.

The District's school lunch fund has periodically borrowed money from the general fund since the 2002-03 fiscal year. In the case of the special aid fund, the District generally makes expenditures upfront and then receives its Federal aid in the summer and repays the general fund. However, the cycle repeats itself once the school year begins again. In neither case are the amounts due from these funds readily available to finance operations.

District officials stated that the Greater Southern Tier BOCES is now operating the lunch program. They expect the program will report an operating surplus, which will allow for the repayment of the advances. The Board should carefully review the results of this change to ensure that the change in operation will provide repayment in a reasonable time.

The Board should carefully review the cash and budgetary status of the school lunch and special aid funds and consider the negative impact they have on the District's ability to finance operations. If necessary, the Board should raise additional resources to mitigate this effect.

### **State Aid Revenue**

We estimate that State aid revenue for two categories, "State Hardware and Technology Aid" and "State Software, Library and Textbook Aid," could be overestimated by \$51,500.

These State aid revenues are based on a formula using the lesser of calculated aid per pupil or actual prior year's expenses. The calculated pupil aid for these categories is \$115,000, while the District's budget estimates these revenues at \$104,500. Currently, the District has expended and encumbered \$42,500, and it has projected that total spending through the year end will be \$53,000. We were not made aware of any additional purchase orders in addition to the amounts currently expended and encumbered. Therefore, the projected spending would appear to be the highest reasonable estimate the District should consider.

We recommend that the District revise its budget to take into account this shortfall in State aid by either reducing expenditures or identifying alternative revenues.

Pursuant to Chapter 417 of the Laws of 2006, the Board shall review the recommendations in this report and make adjustments to its proposed budget. The Board should explain in writing to our Office and the Commissioner of Education any recommendations that it rejects.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, the Board should prepare a plan of action that addresses the recommendations in this report and forward the plan to our Office within 90 days. We encourage the Board to make this plan available for public review in the Board Clerk's office. For guidance in preparing your plan of action and filing this report, please refer to the attached documents. We also 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 contact the Rochester regional office at (585) 454-2460.

Very truly yours,

Mark P. Pattison  
Deputy Comptroller  
Division of Local Government Services  
and Economic Development

cc: Tim Allard, Budget Officer  
Yvonne Erway, Clerk of the Board  
Hon. Owen H. Johnson, Chair, State Finance Committee  
Hon. Herman D. Farrell, Jr., Chair, Assembly Ways and Means Committee  
Hon. Jim Bacalles, State Assembly Representative  
Hon. George H. Winner, Jr., State Senator  
Paul E. Francis, Director, Division of the Budget  
Richard P. Mills, Commissioner, NYS Education Department  
James Conway, Director, Office of Audit Services, NYS Education Department  
Edward V. Grant, Jr., Chief Examiner, Rochester Office of the State Comptroller