Cheektowaga-Sloan Union Free School District

Mrs. Andrea L. Galenski
Superintendent of Schools
(716) 891-6402

July 19, 2017

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

Dear Mr. Mazula:

The Cheektowaga-Sloan Union Free School District is in receipt of the *Draft Report of Examination* entitled, *Fiscal Condition and Payroll,* for the time period of July I, 2015 through March 2, 2017. On behalf of the Board of Education and Administration, we would like to thank the Comptroller's Office for their professionalism and courtesy in conducting their audit. The Cheektowaga-Sloan Union Free School District's Board of Education and Administration, while pleased that the State Comptroller's audit did not identify any instances of fraud or misappropriation, nor did the audit identify any instances of waste or misuse, respectfully disagrees with certain information and statements contained in the report.

For the purpose of ensuring that we adequately address the items contained in the *Report of Examination,* we have organized the District's response into the following three sections:

- Deferral of State Aid
- Fund Balance and Budgeting
- Payroll

Deferral of State Aid

We believe that the audit report neither correctly describes what occurred, the potential effects, or cites the appropriate accounting standards that are applicable in case.

We will make the most significant point now by providing background information from 2005-2006 when neither the current Superintendent of Schools, Andrea L. Galenski, or Business Manager, Wayne Drescher, were part of the District Administration. However, this background information is substantial as it describes a major error that was made back in 2005-2006 which resulted in current administration having to make thoughtful and important decisions in order to preserve the District's future.

In 2005-2006, the District had a capital project for which serial bonds totaling $19,107,000 were issued to support various improvements, including new construction of a cafetorium at Theodore Roosevelt Elementary, an entire new wing at Woodrow Wilson Elementary, and many other improvements at all of our buildings. This construction was approved by Facilities Planning at New York State Department of Education ("NYSED") making it eligible to receive Building Aid over the life of the project. This is typical of a school district building project and the Building Aid received offsets the debt service on the project and only the local share is born by district tax payers (as a simple example of this if $1,000,000 of principal and interest were due on a debt for an approved project with an 88% building aid ratio, the State would provide $880,000 of building aid and the taxpayers would have to provide for $120,000 during that fiscal year).

The NYSED is supposed to assign the maximum useful life to each aidable construction project as per Section 11 of New York State's Local Finance Law which is entitled, "Periods of Probable Usefulness". The District's 2005-06 project mixed both significant new construction and various other reconstruction. NYSED assigns a 15 year amortization period to reconstruction and renovation projects and a 20 year period to new construction projects. Generally, the determination of the amortization period is based on the larger portion of the cost of reconstruction vs. new construction. Based on information received, NYSED assigned a 15 year amortization period to the District's project, which means the District is to receive building aid on assumed debt service payments (principal and interest) over that 15 years. However, when selling the serial bonds to pay for this project, the District, its financial advisor and bond counsel determined that a 20 year amortization period was appropriate and in fact the bonds were sold such that principal and interest would be paid over a 20 year period.

Consequently, the District has been receiving NYS building aid based on this project over 15 years, but is paying the debt on the project over 20 years. When this was discovered by new District administration during the 2015-16 fiscal year, it was determined that the District had been receiving excess aid on the project for the past 10 years and that in just five more years, the NYS building aid would no longer be received. The significant outcome of this error made would mean that the District would have to continue to pay principal and interest on the serial bond with an initial annual amount due exceeding $1,000,000 annually. Superintendent Galenski and Business Manager Drescher knew that this error made back in 2005-2006 would create devastating consequences on educational programming, staffing, the community and District taxpayers.

Despite the consequences being five years away, the appropriate and right thing to do for the District was to deal with the problem immediately and on a current basis. Multiple calls and e-mails were sent to NYSED to attempt to have them adjust the amortization period to match the bond that had been issued. However, they indicated that this was an amortization period assigned 10 years ago, final cost reports had been submitted by the District, and they did not believe it was appropriate to change a determination at this point.

Since the basis of building aid is based upon the maximum useful life of a project, it is only appropriate that building aid received in advance of the appropriate percentage that is aided by NYS to the appropriate time in which such debt is actually paid. The Government Accounting Standards Board issues various pronouncements which form generally accepted accounting principles for governmental entities. Government Accounting Standards Board Statement No. 33 entitled, "Accounting and Financial Reporting for Nonexchange Transactions," provides guidance for transactions that are considered *Government-mandated nonexchange transactions.* These types of transactions occur when a government at one level provides resources to a government at another level and requires that government to use them for a specific purpose or purposes (GASB 33, Para. 7.c.). In this case, clearly the building aid was meant to offset the cost of the debt issued for the construction project (NYS even provides for the interest on such debt). Thus, the last sentence of GASB 33, Para. 19, is applicable as follows:

> "That is, until those requirements are met, the provider does not have a liability, the recipient does not have a receivable, and the recognition of expenses or revenues for resources transmitted in advance should be deferred."

The concept of recognizing building aid over the maximum useful life is further supported by a June 2002 Accounting Release issued by the NYS Comptroller entitled, "Advance Refunding Bonds." While the

District was not issuing refunding bonds, the purpose of the bulletin states, "Building aid, rather than being based on actual debt service payments, will now be based on an "assumed amortization calculation" that assumes that districts borrow money for the maximum period of probable usefulness allowed by Local Finance Law section 11.00 and pays an assumed interest rate." Thus, the NYS Comptroller recognizes that the amortization period is dictated by Local Finance Law under which the District's serial bonds were issued, rather that that assigned by NYSED.

Further, a prior period adjustment to correct this previous error in adjusting to GASB 33 is further supported by a November 2000 Accounting Release issued by the NYS Comptroller entitled, "GASB Statement No. 33--Accounting and Financial Reporting for Nonexchange Transactions." Here it states, "Statement No. 33 is effective for fiscal years beginning on or after July 1, 2000. Accounting changes made to comply with this statement should be treated as a prior period adjustment." Therefore, the prior period adjustment made by the District is in accordance with generally accepted accounting principles and the guidance provided by the NYS Comptroller's Office.

Further, the concept of receiving excess aid for 15 years and then having the taxpayers consume the burden of being completely responsible for the entire debt obligation for the subsequent 5 years is completely contrary with long-term financial planning that is strongly recommended by the NYS Comptroller.

This was not an improper adjustment. Rather, it was the necessary and critical correction of a major error made by a prior administration in 2005-2006, which was corrected by the current administration for the good of our community, students, staff, taxpayers and all District stakeholders. Furthermore, since the recording of the deferred revenue is appropriate, the District is in complete compliance with statutory limits.

Fund Balance and Budgeting

This report appears to take issue with the fact that we have under-spent our annual budgets and have built our fund balance while still being well within statutory limits. In fact, the District believes that it is proactively managing fund balance and budgeting for the good of our taxpayers and very much in line with the Office of the State Comptroller's Local Government Management Guide entitled, "Reserves."

The second paragraph on page one of this *Management Guide* states, "In addition to reserve funds, maintaining a reasonable amount of undesignated fund balance within operating funds is another important financial consideration for local governments and school districts. A reasonable level of unreserved, unappropriated fund balance provides a cushion for unforeseen expenditures, or revenue shortfalls and helps to ensure that adequate cash flow is available to meet the cost of operations. Combining a reasonable level of undesignated fund balance with specific legally established reserve funds provides resources for both unanticipated events and other identified or planned needs."

The District's financial statements for the fiscal year ended June 30, 2012 showed an undesignated fund balance of $350,949 and the only real reserve was a Capital Reserve which has since been used. Thus, the District had an undesignated fund balance of slightly over one-tenth of one percent and no reserves for unforeseen circumstances. This was not a fiscally prudent financial position. Again, we make the point that this was a situation created by past administration and unfortunately was inherited by the current administration. This situation needed to be corrected in order to proceed in a fiscally responsible manner.

Since that time of fiscal year ending June 30, 2012, the District has increased our undesignated fund balance to just below the four percent threshold allowed, has built reserves for unforeseen events and has established a new capital reserve fund as authorized by District residents.

Positioning the District in a much stronger financial position was not accomplished by over burdening taxpayers; rather, it was accomplished by robust fiscal management. In demonstration of this management, we point to the chart on page 10 of the *Report of Examination* which is partially reproduced here:

	Budgeted Appropriations	Actual Expenditures
2013-14	$ 33,434,000	$ 29,374,000
2014-15	$ 33,818,000	$ 28,804,000
2015-16	$ 33,156,000	$ 28,347,000

As you can clearly see from 2014-15, the budgeted appropriation actually decreased from $33,818,000 to $33,156,000. This represents a **$662,000 reduction**. Further, actual expenditures decreased each of these years representing a **total decrease of $1,027,000 from 2013-14 to 2015-16.** We agree that the District did not spend its annual budgeted appropriations, but we feel this is a sign of upright fiscal management and restraint.

These reductions in appropriations and actual expenses were the result of some very difficult decisions that we felt were necessary and in the best interest of all District stakeholders. These difficult decisions included some of the following reductions:

2014-15 Budget

Staff reductions:

- There were 6 individuals retiring (partially utilizing a retirement incentive)
- Only 2 of these positions were replaced (at greatly reduced costs)
- The remaining 4 positions were eliminated
- Eliminated one psychologist position
- Eliminated one special education position
- Eliminated four teacher aide positions
- Eliminated eight teacher assistant positions
- Eliminated one mechanic position in Buildings & Grounds
- Reduction of hours of six administrative clerical positions

Implemented Shared Business Manager model (first in Erie County)

- The Business Manager is a .5 FTE position (previously a full time position)
- We now receive BOCES aid on the position

Partnered with BOCES for management of all computer operations

- Eliminated one full-time position (Director of Technology)
- We now receive BOCES aid on the services
- Effect is improved service and efficiency at lower net cost

Implemented vehicle rotation plan

Implemented capital project process and long-term capital plan

Implemented billing process for out-of-district students (foster and Falk School)

Implemented billing for administrative costs for pre-school special needs children

2015-16 Budget

- Eliminated one clerical position at JFK High School
- Did not replace one teaching position from an individual who retired on Jan. 20, 2015
- Switched dental coverage to lower cost provider
- Implemented a power-off system for computers
- Implemented a print management project
- Initiated capital outlay project ($100,000 annual appropriation)
- Refinanced the District's 2006 bond issuance
- Refinanced the District's 2007 bond issuance
- Eliminated fuel tank at B&G garage
- Implemented fuel cards to reduce cost and better track fuel usage

Other methods for reducing costs:

- There are no assistant, associate or deputy superintendents
- Superintendent serves as Director of Personnel
- There are no assistant principals and principals serve many roles (e.g. Technology Director, etc.)

We were very disappointed to find that the *Report of Examination* makes no comment at all on these numerous actions taken to reduce costs. Moreover, these cost reductions occurred at a time when State Aid was being reduced. In fact, New York State Aid withheld from the District totals $43,448,803, as follows:

	Actual Foundation Aid Received	Foundation Aid Calculated to be Paid by NYS	Total Unpaid Foundation Aid	Gap Elimination Adjustment	Total Aid Withheld
2007-08	$ 8,291,691	$ 11,649,139	$ 3,357,448	$ -	$ 3,357,448
2008-09	9,535,444	13,186,056	3,650,612	-	3,650,612
2009-10	9,535,444	13,598,159	4,062,715	-	4,062,715
2010-11	9,535,444	14,300,879	4,765,435	1,133,129	5,898,564
2011-12	9,535,444	14,366,721	4,831,277	2,182,832	7,014,109
2012-13	9,601,118	13,398,647	3,797,529	1,923,814	5,721,343
2013-14	9,629,921	13,107,764	3,477,843	1,474,057	4,951,900
2014-15	9,778,661	13,080,972	3,302,311	883,636	4,185,947
2015-16	9,814,842	12,496,097	2,681,255	300,180	2,981,435
2016-17	10,008,426	11,633,156	1,624,730	-	1,624,730
			$ 35,551,155	$ 7,897,648	$ 43,448,803

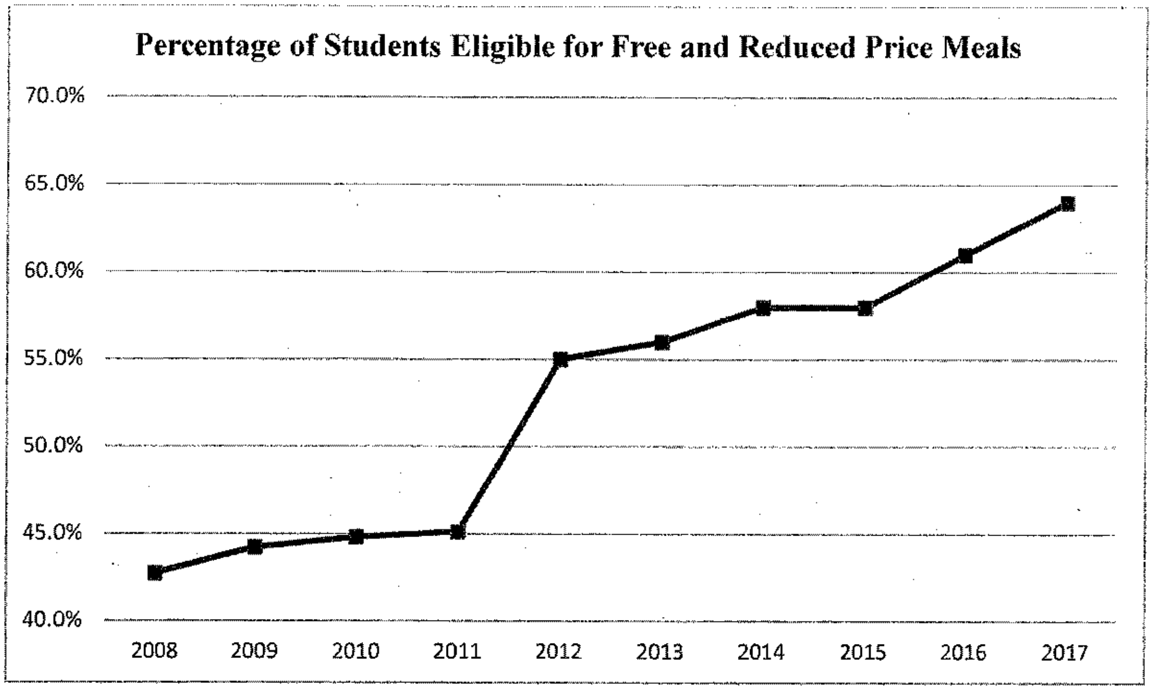
Despite this withholding of aid that could have significantly assisted in reducing the burden to District taxpayers, we believe the District has proactively managed finances such that the change in the tax levy has been very reasonable. New York State imposed a Tax Cap upon local governments in order to control the burden placed on local real property taxpayers. The following is a comparison of the Tax Cap to actual changes in the District's tax levy:

Fiscal Year	Total Tax Levy	Percentage Change	Tax Cap
2013 - 14	$ 14,882,613	-0.40%	4.10%
2014 - 15	15,089,534	1.39%	3.00%
2015 - 16	15,132,624	0.29%	3.74%
2016 - 17	15,236,351	0.69%	1.71%
2017 - 18	15,164,004	-0.47%	2.24%
Total last 5 years		1.49%	14.79%
Average for 5 years		0.30%	2.96%

As indicated in the above chart, the District's actual tax levy is approximately only one-tenth of what it could have been under the Tax Cap. Again, to our disappointment, the *Report of Examination* makes no mention of this impressive fiscal accomplishment.

We would like to note that all of this was accomplished while facing some enormous challenges, many of which are caused by mandates from the State and Federal governments. Some of these challenges include:

- Significant cost increases in Charter School tuition
- Significant cost increases in Special Education for students attending special schools
- Significant cost increases in bus transportation
- Significant cost increases related to requirements under the McKinney-Vento Education of Homeless Children and Youth Assistance Act
- Significant cost increases due to influxes of students that are new English language learners
- Significant cost and other resources required due to increases in poverty within our District. The chart below displays the increase in students eligible for free and reduced price meals:



Despite the challenges faced, State aid being withheld and our attempting to keep the tax levy as low as possible, we believe it is our duty to improve the educational opportunities for our students. The Board of Education and all District employees work tirelessly to make our students better people and leaders in our community. Some of the initiatives and programs put in place in the past couple of years include:

- Implemented Honors Courses
- Several new courses introduced at the high school level—astronomy, meteorology, art courses, building math trade course, etc.
- Significant improvements in technology
- Constructed and staffed two new Academic Learning Centers
- Implemented Seven Habits / The Leader In Me program
- Introducing and training teachers for new Lucy Calkins Reading and Writing Program
- Partnership with Buffalo State College at JFK Middle School
- Implemented Math Olympiad at JFK Middle School—challenging opportunities for students
- Presented on "Return on Investment" to New York State Superintendents and Erie County School Board Association—Superintendent Galenski and Business Manager Drescher
- Maintained art, music, physical education, foreign language, librarians at each school, nurses at all schools, clubs and sports

We are proud to have provided the necessary balance in improved educational opportunities while also reducing expenses, controlling the tax levy and improving our financial position. We will continue to make these thoughtful investments in our students while being watchful for our taxpayers.

All of this prepares the District to face the current issues. In the NYS Comptroller's Message within the *Report on the State Fiscal Year 2017-18 Enacted Budget (paragraph 4),* the Comptroller states, "The Enacted Budget comes at a time when leaders in Washington are considering cuts to federal aid for health care and other services. Given that the State relies on this aid for approximately one-third of its revenues, the unpredictable nature of federal budget and policy discussions presents an elevated concern. The

Budget for this year creates a process that could be used to address potential reductions during the fiscal year. This approach provides flexibility but also leaves uncertainty as to how any such adjustments might affect state agencies, local governments, nonprofits and other entities that rely on State funding." Given the risk of reductions in certain revenues, such as Medicaid, and the potential for mid-year reductions in State Aid, it makes perfect sense to continue to underspend our annual appropriations whenever possible and persist with a strong financial picture.

In summary, we believe that reducing costs and having a sound fund balance is critical in these uncertain times. Given the great care and attention that the District places in managing finances, we find the statement on page 4 of the *Report of Examination* under the heading of *Audit Results* that says, "District officials need to improve their fund balance management and budgeting," to be incorrect, offensive and insulting.

Payroll

We appreciate the Report of Examination commending the Board and District officials for establishing and implementing an effective and efficient payroll system. Salaries and benefits make up the largest portion of expenses and we have tried to implement strong internal controls over this process.

In conclusion, we understand and respect the comments made in the *Report of Examination*. We will use the examination as a learning experience and a tool to provide even greater transparency and accountability to all District Stakeholders. It is our firm belief that we have implemented durable fiscal practices that will provide for long-term stability. The Board of Education, administration and all of our staff take great pride in the Cheektowaga-Sloan Union Free School District and together, we are most proud of the significant accomplishments that we have been able to make since 2012 despite the tremendous challenges outlined above.

Respectfully,

Andrea L. Galenski

Andrea L. Galenski,
Superintendent of Schools

Claire M. Ferrucci

Claire M. Ferrucci
President, Board of Education