OFFICE OF THE NEW YORK STATE COMPTROLLER

DIVISION OF LOCAL GOVERNMENT
& SCHOOL ACCOUNTABILITY

Hoosic Valley Central School District

Financial Management

Report of Examination

Period Covered:

July 1, 2011 — August 31, 2013

2014M-6

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

June 2014

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage district resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of school districts statewide, as well as 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 costs and to strengthen controls intended to safeguard school district assets.

Following is a report of our audit of the Hoosic Valley 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 General Municipal Law.

This audit's results and recommendations are resources for school 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

EXECUTIVE SUMMARY

The Hoosic Valley Central School District (District) is located in the Towns of Schaghticoke and Pittstown in Rensselaer County, and the Towns of Cambridge and Easton in Washington 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, with the Board President acting as chief financial officer. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. The District's business operations are overseen by the Business Administrator who serves as the District's budget officer and is responsible for working with department heads and the Board to develop structurally sound and reasonable budgets.

There are two schools in operation within the District, with approximately 1,000 students and 230 employees. District expenditures for the 2012-13 fiscal year were approximately $18.9 million. Budgeted appropriations for the 2013-14 fiscal year are approximately $20.2 million, which are funded primarily with real property taxes and State and Federal aid.

Scope and Objective

The objective of our audit was to review the District's financial operations for the period July 1, 2011 through August 31, 2013. We expanded our scope to begin on July 1, 2008 for our review of reserve activities. Our audit addressed the following related question:

- Does the Board properly manage District finances by ensuring that budgets are realistic and reserves are appropriately maintained and used?

Audit Results

The Board adopted unreasonable budgets which included overestimated appropriations. It also failed to fund and use reserves in accordance with General Municipal Law. In fiscal year 2011-12, the District's budget called for using a total of about $1.4 million in reserves and surplus funds to fund operations; however, only $331,556 (22 percent) of these funds were used. The fiscal year 2012-13 budget called for using a total of about $1.7 million in reserves and surplus funds; in contrast, only $207,940 (12 percent) of these funds were used. The District did not use the entire amounts budgeted during these years because its deficits were significantly less than planned. In the 2011-12 fiscal year, the general fund budget contained approximately $20 million for appropriations; however, the District expended about $18.4 million, or $1.6 million (8 percent) less than budgeted. In the 2012-13 fiscal year, the general fund budget contained approximately $20.2 million for appropriations, but the District expended about $18.9 million, or $1.3 million (6 percent) less than planned.

We identified four expenditure accounts which were consistently overestimated: District transportation, hospital and medical insurance, State and Local Employees' Retirement System, and Teachers' Retirement System. In the 2011-12 and 2012-13 fiscal years, the District expended $665,000 (14 percent) and $653,000 (14 percent) less than the Board budgeted for in these four accounts.

By adopting unrealistic budgets, the Board raised $1.1 million and $1.5 million of taxes in excess of the amount necessary to finance 2011-12 and 2012-13 operations; these amounts represent 13 percent and 17 percent of the respective tax levies. The District's 2013-14 budget also includes overestimated appropriations. As a result, it is unlikely that the District will use the entire $1.4 million of unexpended surplus funds[1] and reserves that were appropriated in the 2013-14 budget.

District officials moved approximately $3 million out of the general fund's unexpended surplus and into reserves to prevent it from exceeding the 4 percent statutory limit. Because District officials inappropriately funded reserves, general fund unexpended surplus funds were understated. Conversely, the general fund's unexpended surplus funds were overstated by $170,000 because District officials improperly transferred that amount from the employee benefit accrued liability reserve to the general fund. As a result, we recalculated the District's unexpended surplus fund balance and found it was between 18 percent and 19 percent of the ensuing year's budgeted appropriations for the 2010-11, 2011-12 and 2012-13 fiscal years. This is an amount that is nearly five times greater than the maximum allowed by statute.

Further, the District's long-term financial plan was not adequate because it did not include appropriate provisions for the use of unexpended surplus funds and reserves. In addition, the Board did not adopt the plan and the figures in the plan did not balance; estimated future revenues plus appropriated surplus funds and appropriated reserves did not equal estimated future appropriations. The District's lack of adequate planning caused, in part, the District's failure to adopt reasonable budgets and maintain and use reserves appropriately.

Comments of District Officials

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix B, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

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1 The Governmental Accounting Standards Board (GASB) issued statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, minus appropriated fund balance, amounts reserved for insurance recovery and tax reduction, and encumbrances included in committed and assigned fund balance (post-Statement 54).

Introduction

Background

The Hoosic Valley Central School District (District) is located in the Towns of Schaghticoke and Pittstown in Rensselaer County, and the Towns of Cambridge and Easton in Washington 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, with the Board President acting as chief financial officer. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. The District's business operations are overseen by the Business Administrator who serves as the District's budget officer and is responsible for working with department heads and the Board to develop structurally sound and reasonable budgets.

There are two schools in operation within the District, with approximately 1,000 students and 230 employees. District expenditures for the 2012-13 fiscal year were approximately $18.9 million. Budgeted appropriations for the 2013-14 fiscal year are approximately $20.2 million, which are funded primarily with real property taxes and State and Federal aid.

Objective

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

- Does the Board properly manage District finances by ensuring that budgets are realistic and reserves are appropriately maintained and used?

Scope and Methodology

We examined the District's budgeting practices and reserve activities for the period July 1, 2011 through August 31, 2013. We expanded our scope to begin on July 1, 2008 for our review of reserve activities.

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 is 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 planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the 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 this CAP available for public review in the District Clerk's office.

Financial Managment

The responsibility for accurate and effective financial planning rests with the Board, Superintendent and Business Administrator. The Board should adopt budgets that include appropriations that are necessary for District operations, are financed by recurring revenue sources, and ensure that the levy of real property taxes is not greater than necessary. Fund balance represents the cumulative residual resources from prior fiscal years that can, and in some cases must, be used to lower property taxes for the ensuing fiscal year. A district may retain a portion of fund balance, referred to as unexpended surplus funds,[2] but must do so within the legal limits established by Real Property Tax Law.[3] Additionally, reserves may be established for a variety of future purposes and used to accumulate funds to finance those purposes. Prudent fiscal management requires the Board to establish long-term financial plans which include plans for the maintenance and use of both unexpended surplus funds and reserve funds.

The Board adopted unreasonable budgets which included overestimated appropriations. The budgets for fiscal years 2011-12 and 2012-13 called for using a total of about $3.1 million in reserves and surplus funds to finance operations; however, only $539,496 (17 percent) of these funds were used. In addition, the Board moved approximately $3 million out of the general fund's unexpended surplus and into reserves to prevent the District from exceeding the 4 percent statutory limit. District officials also financed expenditures with operating revenues that could have been funded by reserves. We recalculated the District's unexpended surplus fund balance by adding back the amounts improperly allocated to reserves and found it was between 18 percent and 19 percent of the ensuing year's budgeted appropriations for the 2010-11, 2011-12 and 2012-13 fiscal years. This is an amount that is nearly five times greater than the maximum allowed by statute. Furthermore, unexpended surplus funds were

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[2] The Governmental Accounting Standards Board (GASB) issued statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, minus appropriated fund balance, amounts reserved for insurance recovery and tax reduction, and encumbrances included in committed and assigned fund balance (post-Statement 54).

[3] Real Property Tax Law limits the amount of unexpended surplus funds that can be legally retained by District officials to 4 percent of the ensuing year's budget.

as much as 44 percent of the ensuing year's tax levy.[4] By not using unexpended surplus funds and reserves to finance operations, District officials missed opportunities to minimize property taxes. Finally, the District's long-term plan was not adequate because it did not include appropriate provisions for the use of unexpended surplus funds and reserves, and it included revenue and appropriation estimates that were unrealistic.

Budgeting

In preparing the budget, the Board is responsible for estimating revenues, expenditures and how much unexpended surplus funds will be available at fiscal year-end. The Board should consider prior years' operating results, past revenue and expenditure trends, anticipated future needs and other relevant information when developing revenue and expenditure estimates. Any unexpended surplus funds on hand at fiscal year-end that exceed the statutory limit should be used to lower real property taxes, increase necessary reserve funds, pay for one-time expenses or pay down debt. District officials should not appropriate unexpended surplus funds simply to circumvent the statutory limit. Because the budgeting process ultimately determines the District's expected tax levy amount, accurate estimates are imperative to help ensure real property taxes levied are not greater than necessary.

When surplus funds and reserves are appropriated to finance operations, the District would normally incur a planned annual operating deficit if estimates for revenues and expenditures are reasonable. As can be seen in Table 1, in fiscal year 2011-12, the District's budget called for using a total of about $1.4 million in reserves and surplus funds to fund operations; however, only $331,556 (22 percent) of these funds were used. The fiscal year 2012-13 budget called for using a total of about $1.7 million in reserves and surplus funds; in contrast, only $207,940 (12 percent) of these funds were used. The District did not use the entire amounts budgeted during these years because its deficits were significantly less than planned.

Table 1: Budgets vs. Actual Operations

	FY 2011-12			FY 2012-13		
	Budget	**Actual**	**Variance**	**Budget**	**Actual**	**Variance**
Expenditures	$19,949,231	$18,378,685	$1,570,546	$20,226,883	$18,927,309	$1,299,574
Revenues	$18,497,231	$18,047,129	($450,102)	$18,561,883	$18,719,369	$157,486
Operating Surplus/ (Deficit)	**($1,452,000)**	**($331,556)**	**$1,120,444**	**($1,665,000)**	**($207,940)**	**$1,457,060**
Use of Reserves	$200,000	$43,981	$156,019	$293,712	$220,000	$73,712
Use of Surplus Funds	$1,252,000	$287,575	$964,425	$1,371,288	($12,060)[a]	$1,383,348
Totals	**$1,452,000**	**$331,556**	**$1,120,444**	**$1,665,000**	**$207,940**	**$1,457,060**

[a] None of the $1,371,288 of appropriated surplus funds were used for 2012-13. Because the general fund had an operating deficit of $207,940, and $220,000 of reserves were applied to finance 2012-13 expenditures, the surplus fund balance was increased by $12,060.

[4] Unexpended surplus funds, including the amounts improperly allocated to reserves, were 44 percent of the 2010-11 tax levy as of June 30, 2010, 42 percent of the 2011-12 tax levy as of June 30, 2011and 43 percent of the 2012-13 tax levy as of June 30, 2012.

Although revenue estimates were reasonable, varying from actual revenues by less than 3 percent in 2011-12 and less than 1 percent in 2012-13,[5] the Board adopted budgets that contained unrealistic estimates for expenditures. In the 2011-12 fiscal year, the general fund budget contained approximately $20 million for appropriations; however, the District expended about $18.4 million, or $1.6 million (8 percent) less than budgeted. In the 2012-13 fiscal year, the general fund budget contained approximately $20.2 million for appropriations, but the District expended about $18.9 million, or $1.3 million (6 percent) less than planned.

We identified four expenditure accounts which were consistently overestimated: District transportation, hospital and medical insurance, State and Local Employees' Retirement System and Teachers' Retirement System. In the 2011-12 and 2012-13 fiscal years, the District expended $665,000 (14 percent) and $653,000[6] (14 percent) less than the Board budgeted for in these four accounts.[7] According to District officials, they included excess amounts in these appropriation accounts in case of unforeseen circumstances. Based on historic actual expenditures, this is not a reasonable manner to estimate appropriations. Further, the District has ample fund balance to provide for unanticipated events without continuing to include excess amounts in the budgets.

The District's 2013-14 budget also includes overestimated appropriations. Although the District expended less than $19 million in each of the 2011-12 and 2012-13 fiscal years, the Board adopted a 2013-14 budget that contained more than $20.2 million of appropriations. The Board also increased appropriations by $178,000 for the four accounts which we found were overestimated in the 2011-12 and 2012-13 fiscal years. Based on 2011-12 and 2012-13 expenditures and information for 2013-14, this increase does not appear reasonable. As a result, it is unlikely that the District will use the entire $1.4 million of unexpended surplus funds and reserves that were appropriated in the 2013-14 budget.

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[5] In 2011-12, the District did not realize all budgeted revenues because District officials overestimated State aid revenue in error, which was corrected in the 2012-13 budget. In 2012-13, the District realized more miscellaneous revenues, including prior year refunds, than District officials anticipated.

[6] The remaining $906,000 and $647,000 of overestimated appropriations in the respective 2011-12 and 2012-13 budgets were caused by overestimating numerous appropriations by small amounts.

[7] In fiscal year 2011-12, the general fund budget included $4.7 million of appropriations in these four accounts but the District only expended $4 million. Despite expending less than budgeted in 2011-12, the District increased 2012-13 budget appropriations for these four accounts by $123,000 to $4.8 million and only expended $4.2 million in 2012-13.

We interviewed District officials and reviewed the District's fund balance projections and calculation of appropriated fund balance and reserves for the 2011-12 and 2012-13 fiscal years. We found that the Board appropriated fund balance in the amount needed to remain under the 4 percent statutory limit. Although it is acceptable, and expected, to appropriate fund balance to remain under the statutory limit, the Board must also adopt realistic budgets to ensure that the amount of fund balance appropriated is actually used. Appropriating fund balance which cannot reasonably be expected to be used is not an acceptable way to reduce unexpended surplus funds to a level below the statutory limit. By adopting unrealistic budgets, the Board raised $1.1 million and $1.5 million of taxes in excess of the amount necessary to finance 2011-12 and 2012-13 operations; these amounts represent 13 percent and 17 percent of the respective tax levies.[8]

Reserves

General Municipal Law (GML) authorizes the establishment of various reserve funds for the purpose of financing all or part of specified[9] future costs. Money set aside in reserves must be used in compliance with statutory provisions which determine how reserves are established and how they may be funded, expended and discontinued. Generally, school districts are not limited as to how much money can be held in reserves; however, reserve balances must be reasonable and based on future District obligations. Funding reserves at greater than reasonable levels and using operating funds to pay expenditures that should be funded by reserves results in real property tax levies that are higher than necessary. The Board is responsible for developing a formal plan for the use of its reserves, including anticipated use and need of reserve funds, as well as how and when disbursements should be made.

The District did not fund or use reserves in accordance with GML. Furthermore, District officials used operating moneys raised in the general fund to pay for costs which could have been funded with reserve fund proceeds. The District's inappropriate use of these reserves was caused, in part, by the Board's failure to develop a formal plan for the maintenance and use of reserves. As of August 31, 2013, the District had a total of $3,615,048 in its six reserve funds.[10] However, $2,839,499 of this amount was improperly allocated to the reserve funds. When added back, the District's unexpended surplus fund balance is 19 percent of the ensuing year's appropriations, which significantly exceeds the 4 percent limit allowed by Real Property Tax Law.

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[8] We calculated taxes raised in excess of the amount necessary to finance operations by adding the amounts of appropriated fund balance and appropriated reserves that were not used. These figures can be found in Table 1.

[9] A reserve fund should have a clear purpose or intent that aligns with statutory authorization (provisions of GML).

Debt Service Reserve — A mandatory reserve for debt service (debt service reserve) must be established if a capital project financed with debt has left over proceeds upon completion of the project and the debt obligation remains outstanding. In addition, if a school district has residual bond proceeds and/or interest earned on bond proceeds, those moneys must be used only to pay for debt service on the related obligations or for capital expenditures associated with the project for which the debt was issued and accounted for in the debt service fund. There is no other authority for a school district to establish or fund a reserve to pay for debt service.

The Board inappropriately funded a debt service reserve by transferring moneys from unexpended surplus funds to the reserve. The debt service reserve had a balance of $106,230 as of July 1, 2008 which increased to $2,662,036 as of August 31, 2013. We found this reserve was funded primarily by two transactions recorded at the end of the District's fiscal years, as follows:

- A $1,960,542[11] transfer from unexpended surplus funds to the debt service reserve was recorded on June 30, 2008.
- A second transfer of $1,052,213 from unexpended surplus funds to the debt service reserve was recorded on June 30, 2009.

District officials were unable to provide us with documentation to demonstrate that the amounts transferred from unexpended surplus funds to the debt service reserve were for a purpose authorized by GML. However, District officials did provide us with a calculation of the amounts to be transferred.[12] Based on this information, the amounts transferred from unexpended surplus funds to the debt service reserve were calculated by determining the maximum amount of unexpended surplus funds that could be retained[13] and transferring the amount of surplus funds over the maximum to the debt service reserve and other reserves. Although it may be acceptable to transfer unexpended surplus funds to other reserves, it is not appropriate to transfer them

[10] The District established a mandatory reserve for debt, employee benefit accrued liability reserve, reserve for retirement contributions, unemployment insurance reserve, repair reserve and a tax certiorari reserve.

[11] The total approved transfer was $2,049,147; however, this amount included $88,605 of premiums on obligations which were appropriately transferred to the reserve. The District could not provide any supporting documentation that the remaining $1,960,542 was for a purpose authorized by GML to be transferred to the debt service reserve.

[12] The District officials who performed these calculations to fund the debt service reserve are no longer employed by the District. District officials currently employed by the District were generally unfamiliar with the calculation.

[13] 4 percent of the ensuing year's budgeted appropriations

to the debt service reserve, as previously described. Because the debt service reserve was inappropriately funded, unexpended surplus funds were, in effect, understated by approximately $3 million.

Reserve Use — District officials did not use the employee benefit accrued liability reserve (EBALR) appropriately. Furthermore, District officials used funds raised in the general fund to pay for costs which could have been funded with the EBALR, retirement contribution reserve and unemployment insurance reserve moneys.

The Board established an EBALR for the purpose of paying accrued benefits due to employees for accumulated vacation, sick or personal leave. As of July 1, 2008, the District held a balance in the EBALR in the amount of $227,556, which was reduced to $56,548 as of August 31, 2013. District officials inappropriately used $173,256 of EBALR funds as follows:

- In the 2009-10 fiscal year, the Board authorized a $138,256 transfer from the EBALR to the general fund. According to District officials, this transfer was made in an effort to align the EBALR balance with the related liability; however, this is not authorized by GML.

- During the 2011-12 fiscal year, District officials expended $35,000 of the EBALR to finance two retirement incentive payments. The District is not authorized to use this reserve for any purpose except to pay accrued benefits to employees for accumulated vacation, sick or personal leave.

Additionally, from July 1, 2008 through August 31, 2013, District officials expended $1.2 million of general fund annual operating moneys for costs which could have been funded with reserves, as follows:

- District officials used $1,073,344 of operating funds to pay for New York State employee retirement contributions. Although the retirement contribution reserve[14] did not contain sufficient funds[15] to finance the entire amount of expenditures made for retirement contributions, District officials could have used the reserve to pay a portion of these costs. Furthermore, the Board appropriated $200,000 of retirement contribution reserve funds in the 2011-12 fiscal year budget and $113,712 in the

[14] A retirement contribution reserve may be established to fund employer contributions, including any portion of the amount payable by the District to the NYS Local Employee Retirement System, but not to the Teachers' Retirement System.

[15] The balance in this reserve was $758,848 as of July 1, 2008 and $762,624 as of August 31, 2013.

2012-13 fiscal year budget, but did not actually use any of the reserve proceeds to finance the related expenditures.

- Although the unemployment insurance reserve[16] had a balance in excess of $100,000, District officials did not use this reserve to pay $80,562 of operating expenditures for unemployment insurance costs.

- District officials expended $7,605 to pay for unused accrued vacation time for an employee leaving District employment during the 2012-13 fiscal year. District officials used operating funds to finance these costs rather than EBALR funds.

Because District officials inappropriately funded reserves, general fund unexpended surplus funds were understated. As discussed previously, District officials moved approximately $3 million out of the general fund's unexpended surplus funds to prevent it from exceeding the 4 percent statutory limit. Conversely, the general fund's unexpended surplus funds were overstated by $170,000 because District officials improperly transferred that amount from the EBALR to the general fund. As a result, we recalculated the District's unexpended surplus fund balance and found it was between 18 percent and 19 percent of the ensuing year's budgeted appropriations for the 2010-11, 2011-12 and 2012-13 fiscal years, as indicated in Table 2. This is an amount that is nearly five times greater than the maximum allowed by statute.

Table 2: Recalculation of the General Fund's Year-End Unexpended Surplus Funds

	FY 2010-11	FY 2011-12	FY 2012-13
District's Unexpended Surplus Funds as Reported by the District	$873,244	$807,075	$944,322
Plus: Net Amount Improperly Allocated to Reserves	$2,839,499	$2,839,499	$2,839,499
Recalculated Unexpended Surplus Funds	$3,712,743	$3,646,574	$3,783,821
Ensuing Year's Appropriations	$19,949,231	$20,226,883	$20,215,905
Unexpended Surplus Funds as a Percent of the Ensuing Year's Appropriations	19%	18%	19%

The Board's practice of appropriating fund balance which cannot realistically be expected to be used is not an acceptable way to reduce fund balance to a level that complies with Real Property Tax Law. Additionally, District officials withheld more than $2.8 million from being used to meet District needs and failed to use excess unexpended surplus funds to reduce property taxes as required by Real Property Tax Law. District officials could also have further reduced property taxes by using reserve funds to pay for eligible costs rather than using operating funds.

[16] GML authorizes the establishment of an unemployment insurance reserve to reimburse the New York State Unemployment Insurance Fund for payments made to claimants.

Multiyear Financial Plan

Multiyear financial planning is a tool school districts can use to improve the budget development process. Planning on a multiyear basis will enable District officials to identify developing revenue and expenditure trends, establish long-term priorities and goals, and consider the impact of current budgeting decisions on future fiscal years. It also allows District officials to assess the merits of alternative approaches (such as using unexpended surplus funds or establishing and using reserves) to finance its operations. Any long-term financial plan should be monitored and updated on a continuing basis to provide a reliable framework for preparing budgets and to ensure that information used to guide decisions is current and accurate.

Although the Business Administrator prepared a long-term financial plan, the plan was not adequate because it did not include appropriate provisions for the use of unexpended surplus funds and reserves. Furthermore, the Board did not adopt the plan and the figures in the plan did not balance; estimated future revenues plus appropriated surplus funds and appropriated reserves did not equal estimated future appropriations. Additionally, the Board has not adopted a policy or developed a formal plan for appropriating fund balance or reserves. The District's lack of adequate planning caused, in part, the District's failure to adopt reasonable budgets and maintain and use reserves appropriately.

Recommendations

1. The Board and District officials should ensure that the amount of the District's unexpended surplus fund balance is in compliance with the Real Property Tax Law statutory limits.

2. The Board should develop and adopt budgets that include realistic estimates for appropriations.

3. The Board should discontinue the practice of adopting budgets that result in appropriating unexpended surplus funds and reserves that will not be used to sustain District operations.

4. The Board should ensure all reserves are maintained in accordance with applicable laws.

5. District officials should prepare a plan for reserves which includes the projected use and need of reserve funds.

6. The Board and District officials should review reserves and determine if the amounts reserved are necessary and reasonable. Those amounts determined to be excessive must be transferred out of the reserves in compliance with statutory requirements.

7. District officials should attempt to identify the source of the money remaining in the debt service reserve. If it is attributable

to outstanding debt or State aid related to a capital improvement, it must be used to pay that outstanding debt associated with the source of funding. If it is not attributable to either, it must be returned to the general fund.

8. The Board and District officials should develop a multiyear financial plan that addresses the use of unexpended surplus funds in a manner that benefits District taxpayers. Such uses could include but are not limited to:

    - Reducing real property taxes,
    - Increasing necessary reserves,
    - Paying off debt and
    - Financing one-time expenditures.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Hoosic Valley Central School District

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April 22, 2014

NYS Office of the State Comptroller
Division of Local Government and School Accountability
One Broad Street
Glens Falls, New York 12801

Re: Report of Examination 2014M-006

This letter shall serve as the official response from the Hoosic Valley Central School District regarding the "Draft Audit Report" on Financial Management covering the period of July 1, 2011 through August 31, 2013. While conducting your field audit, it was decided to expand the review of reserve activities back to July 1, 2008. We have had an opportunity to discuss your findings on two occasions: Informal discussions on October 30, 2013 and the final exit interview on March 31, 2014. Overall the report is an accurate account of the District's finances over the period under review.

The previous administration recommended a reasonable budget plan of probable expenditures and anticipated income to the Board of Education each year. These budgets were scrutinized, revised, publicly presented and voted on as required by Law. The community overwhelmingly supported and approved each of the last six (6) budgets with a super-majority result each time. The current administration cannot substitute our judgment over that of our predecessors; however, this report now provides Hoosic Valley CSD an opportunity to improve its financial management into the future. The Board of Education understands their fiduciary responsibilities as guardian of public funds and together working with the administrative team, Hoosic Valley CSD will provide the State Comptroller's office with a corrective action plan to maintain the trust and confidence of our residents, staff and students.

These are extraordinary times to balance all of the educational requirements, support systems and services with limited resources, increasing costs, tax levy cap, and now a tax freeze credit mandating a state approved government efficiency plan. To achieve this balance we will prepare a multi-year financial plan for our operating budgets utilizing our reserves conservatively. The administration and Board of Education will take all precautionary measures possible to ensure the financial stability of the Hoosic Valley Central School District.

Respectfully Submitted:

Amy V. Goodell
Superintendent of Schools

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: control environment, financial condition (including reserve funds), budgeting, accounting records and reports, cash management, cash receipts and disbursements, purchasing, claims processing, payroll and personal services, and information technology. During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes, and financial records and reports.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objective and scope by selecting for audit the area most at risk. We selected financial management for further audit testing. To accomplish our objective, we performed the following procedures:

- We traced a sample of accounts from the annual update document to the independent audit report to verify that the accounting records were supported, accurate and reliable.

- We interviewed District officials to obtain an understanding of the District's internal controls over financial operations, budgeting and the use of reserve funds.

- We compared total revenues and expenditures to adopted budgets to determine if revenue and appropriation estimates were realistic.

- We identified significant revenue and appropriation accounts and compared their actual results to budgeted amounts to determine if estimates of significant revenues and appropriations were realistic.

- We reviewed the 2013-14 budget and compared it with historical actual results to determine if it was realistic.

- We analyzed the District's long-term financial plans relating to appropriated fund balance and reserves.

- We compared the actual results of operations to appropriated fund balance amounts to determine if planned deficits were realized. We compared reserves used to appropriated reserves to determine if reserves were used as planned.

- We identified GML requirements for each type of reserve held by the District. We analyzed Board resolutions and accounting entries to determine how reserves were funded and used, and whether they were funded and used in accordance with GML.

- We analyzed District expenditures to determine if those funded by operating revenues were eligible to be funded with reserves.

- We determined if the District's fund balance classifications were appropriate and recalculated the unexpended surplus funds.

- We analyzed unexpended surplus funds as a percentage of the ensuing year's budget to verify the District maintained them at a level in accordance with Real Property Tax Law.

- We analyzed the District's tax levy to identify any increases in the levy. We also determined whether the District's tax levy could have been reduced if more realistic budgets were adopted and reserves were funded and used appropriately.

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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