

Unit Name: Horseheads Central School District

Audit Report Title: Financial Condition

Audit Report Number: 2016M-138

For each recommendation included in the audit report, the following is our corrective action(s) taken or proposed. For recommendations where corrective action has not been taken or proposed, we have included the following explanations.

1. **Audit Recommendation:**

Adopt budgets that represent the District's actual needs, based on available current information and historical data.

Implementation Plan of Action(s):

The Board of Education and District Administration have already begun to implement this recommendation prior to the date of this audit. In conjunction with the Board of Education, the current superintendent and school business administrator have developed a more accurate and realistic budget for 2016-17 and will continue to refine the budget over future years. The Board of Education and District Administrators recognize the fact that right-sizing the budget will take several years of careful planning to fully implement this report's recommendations.

In the 2016-17 budget, various line items were right-sized based on actual needs and historical data in the amount of approximately \$1.2 million. The district will continue this right-sizing process in its 2017-18 budget and make adjustments as appropriate.

Implementation Date:

Currently in process

Person Responsible for Implementation:

Board of Education

Superintendent of Schools

School Business Administrator

District Administration

2. Audit Recommendation:

Discontinue the practice of adopting general fund budgets that result in the appropriation of fund balance and reserve funds that will not be used.

Implementation Plan of Action(s):

Please see response to Audit Recommendation #1. In addition to what has previously been stated, in the 2016-17 budget, the district has already reduced its reliance on fund balance to balance its budget by \$2 million, or 45%, from \$4.5 million in the 2015-16 budget to \$2.5 in the 2016-17 budget. District Administration and the Board of Education will continue reduce its reliance on fund balance in its budget in a careful and controlled manner, as it makes sense, depending on the state's funding of school aid.

Implementation Date:

Currently in process

Person Responsible for Implementation:

Board of Education
Superintendent of Schools
School Business Administrator
District Administration

3. Audit Recommendation:

Use guidance provided by the State Comptroller to accurately calculate the District's compensated absences liability and classify and report short- and long-term portions accordingly.

Implementation Plan of Action(s):

During the year end close out process of the 2015-16 school year, the District's compensated absences liability was re-calculated per the guidance provided by the State Comptroller.

Implementation Date:

Complete as of year end 2016.

Person Responsible for Implementation:

School Business Administrator

4. Audit Recommendation:

Properly account for unused flex spending money in the general fund.

Implementation Plan of Action(s):

This item was recognized by the District prior to the date of this audit. An adjustment was made to this account on April 18, 2016 to account for the unused funds.

Implementation Date:

Complete as of April 18, 2016

Person Responsible for Implementation:

School Business Administrator

5. Audit Recommendation:

Reduce the amount of unrestricted fund balance and use the excess funds in a manner that benefits District residents. Such uses could include, but are not limited to:

- *Funding one time expenditures;*
- *Funding needed reserves; and*
- *Reducing District property taxes.*

Implementation Plan of Action(s):

The District has used its excess funds in a manner that benefits District residents. The District has fully funded its \$10 million capital reserve with its excess funds as of year end 2016. The District is in the early planning phases of a comprehensive capital improvement plan that will impact all facets and buildings of the District. By fully funding this capital reserve, the District will have the ability to reduce the tax burden on its residents with the passage of any future capital project. This transfer to the capital reserve will be funded through this year's unanticipated surplus as well as a careful review of the District's cash resources to reduce the future tax burden on our community.

Previously, at year end 2015, the District funded a \$3 million technology capital project with the use of excess funds. The funds for the project came from the board approved Gap Elimination Adjustment Committed Fund Balance account. This account was initially funded when the state was withholding money from the District through the state-imposed gap elimination adjustment. The District and the board recognized the fact that this account was no longer necessary due to the eventual elimination of the GEA by state officials and transferred these funds to fully fund this capital project, again, with no tax impact to our community.

The District Administration and Board of Education will continue to pursue opportunities such as these, as it makes sense, to fund one time expenditures, fund reserves as needed, and reduce the tax burden on our community.

Implementation Date:

Currently in process.

Person Responsible for Implementation:

Board of Education
Superintendent of Schools
School Business Administrator
District Administration

6. Audit Recommendation:

Adopt a comprehensive reserve policy that clearly states the purpose and intent for establishing each reserve fund, the manner in which the Board will fund and maintain each reserve fund and optimal or targeted funding levels and conditions under which each fund's assets will be used or replenished.

Implementation Plan of Action(s):

The District was in the process of developing a formal reserve plan prior to the start of this audit. Prior to the adoption of the formal plan, the board would annually review, in open session, a multi-year balance history for each of the reserves, as well as review the purpose of the reserves. The District's reserve plan was finalized and approved by the Board of Education on May 26, 2016. This plan is more comprehensive than what has been presented to the board in the past in that it now includes how the reserve is to be established and funded, as well as targeted funding levels. This plan will be reviewed, updated, and approved accordingly by the Board of Education annually and will be used as the District develops its plan for its excess funds in the future. The District will post this plan to its District website annually.

Implementation Date:

Reserve plan complete; will be reviewed and updated on an annual basis.

Person Responsible for Implementation:

Board of Education
Superintendent of Schools
School Business Administrator
District Administration

7. Audit Recommendation:

Review all reserves and determine the extent of excess balances. District officials should transfer excess reserve funds to unrestricted fund balance, where allowed by law, or to other reserves that have been established and maintained in compliance with statutory directives.

Implementation Plan of Action(s):

The District will review all reserves and current balances to determine the extent of their excess, if any. The balance maintained in the District's reserves is a local decision, and the board has been consistently made aware of the status of our fund balance and reserves. The District's external auditor has also had detailed discussions with the Audit Committee regarding these balances as well. As mentioned above, the District adopted a comprehensive reserve plan on May 26, 2016.

The District respectfully disagrees with the statement in this audit that our retirement contribution reserve is overfunded. The District is following a statewide trend, based upon the recommendation of our external auditor, of maintaining a balance in this account of three to five years of our ERS payment. Based on our current balance of \$2.2 million, we have approximately 2.5 years of payments in this reserve. The District will fund this reserve in accordance with our reserve plan and use this reserve going forward in the budget development process, as we have demonstrated in the 2016-17 budget.

The District will continue to review the balances of its reserve funds on an annual basis and make adjustments as appropriate in accordance with the board approved reserve plan.

Implementation Date:

Currently in process; will be reviewed on an annual basis.

Person Responsible for Implementation:

Board of Education
Superintendent of Schools
School Business Administrator
District Administration

8. Audit Recommendation:

Use money in the debt service fund to make debt payments as appropriate.

Implementation Plan of Action(s):

The District will develop a long term plan that will utilize the debt service funds to the best benefit of our taxpayers as part of our long term budget development process. As building aid related to district debt begins to decline, the District will utilize the debt service fund to soften the impact to the budget. The District is in receipt of a plan from our financial advisors to support this.

Implementation Date:

2017-18 Budget Development

Person Responsible for Implementation:

Board of Education
Superintendent of Schools
School Business Administrator
District Administration

Signed:

Name

Date

Pamela Stollo

President, Board of Education