



Hendrick Hudson Central School District

Financial Condition

Report of Examination

Period Covered:

July 1, 2011 — June 30, 2013

2013M-241



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	3
Comments of District Officials	3
FINANCIAL CONDITION	4
APPENDIX A Response From District Officials	6
APPENDIX B Audit Methodology and Standards	8
APPENDIX C How to Obtain Additional Copies of the Report	9
APPENDIX D Local Regional Office Listing	10

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2013

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments 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 local government assets.

Following is a report of our audit of the Hendrick Hudson Central School District, entitled Financial Condition. 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 local government 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 Hendrick Hudson Central School District (District) is located in Westchester County and includes the Town of Cortlandt and part of the City of Peekskill. The District is governed by the Board of Education (Board) which comprises 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 (Superintendent) is the District's chief executive officer and is responsible, along with the Assistant Superintendent for Business and other administrative staff, for the District's day-to-day management, and development and administration of the budget.

The District operates five schools, with approximately 2,665 students and 515 employees. The District's budgeted expenditures for the 2011-12 and 2012-13 fiscal years were \$69.8 million and \$70.6 million, respectively, funded primarily with real property taxes and State aid.

Objective

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

- Do Board members adopt realistic budgets that are structurally balanced and do District officials adequately monitor the District's financial operations to ensure fiscal stability?

Scope and Methodology

We examined the District's financial condition for the period July 1, 2011, to June 30, 2013. We expanded our scope to include the 2008-09 fiscal year to analyze the District's fund balance, operating results and financial 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

The results of our audit 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 report.

Financial Condition

A school district's financial condition is a primary factor in determining its ability to continue providing public educational services for students within the district. The Board, Superintendent, and Assistant Superintendent for Business are accountable to taxpayers for the use of District resources and are responsible for effective financial planning and management of District operations. Therefore, it is essential that officials develop reasonable budgets and manage fund balance responsibly and in accordance with statute. Sound budgeting practices 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.

Key measures of a district's financial condition are its level of fund balance, which is the difference between revenues and expenditures accumulated over time, and funds from reserves established pursuant to Education Law, General Municipal Law, or special legislation. When maintained at reasonable levels, fund balance can provide cash flow, help finance the next fiscal year's operations, and help manage unexpected costs. Real Property Tax Law limits the amount of surplus fund balance a school district can retain to no more than 4 percent of the next year's budget appropriations.

District officials developed reasonable budgets and managed fund balance responsibly in accordance with statute. Although the District's fund balance has decreased significantly over the past five years, from \$8.5 million beginning in 2009 to \$4.6 million¹ in 2013, the District is not currently in fiscal stress. The decline resulted from the District's planned operating deficits and planned use of moneys from its tax stabilization reserve, as depicted in Table 1.

Table 1: Planned Deficits					
	2009-10	2010-11	2011-12	2012-13	2013-14
Actual Revenues	\$63,134,925	\$65,006,939	\$66,674,994	\$69,023,420	\$68,792,801
Actual Expenditures	\$64,846,352	\$65,972,894	\$68,123,944	\$69,770,268	\$67,877,379
Actual Operating Surplus (Deficit)	(\$1,711,427)	(\$965,955)	(\$1,448,950)	(\$746,848)	\$915,422
Planned Use of Tax Stabilization Reserve	\$2,431,000	\$384,888	\$0	\$18,000	\$0
Planned Use of Appropriated Fund Balance	\$1,450,000	\$1,504,500	\$2,450,000	\$1,900,000	\$1,130,000

¹ \$4.6 million is an estimate; audited numbers were not yet available.

Tax Stabilization Reserve — The New York State Legislature passed special legislation in 2001 to create the District’s tax stabilization reserve. The reserve was created to lessen or prevent projected increases in real property tax levies that could be caused by decreases in payments arising from the payment in lieu of taxes (PILOT) agreement that was entered into between the District and a nuclear power facility.² Moneys for the tax stabilization reserve totaling \$13,524,208³ were provided by the nuclear power facility through a separate tax stabilization agreement between the District and the facility.

Beginning in the 2004-05 fiscal year, the District started to expend funds from the tax stabilization reserve through planned operating deficits, which required the use of moneys from the tax stabilization reserve to balance its budgets. The District continued to use moneys from the tax stabilization reserve until it was basically depleted in 2010. The District planned an operating deficit in the 2011-12 and 2012-13 fiscal years to reduce its fund balance. The District appropriated \$1.13 million of fund balance in the 2013-14 budget, reducing the available fund balance to \$2.2 million, which is 3.1 percent of the 2013-14 budget and within the 4 percent statutory limit.

District officials have taken appropriate actions to manage the District’s financial condition. They recognized the need to be proactive in budget development and expenditure controls. We commend District officials for their progressive involvement in managing the District’s financial condition. As a result, the District’s financial position has remained strong.

Once the current PILOT agreement expires in 2014, the District can negotiate new PILOT and tax stabilization agreements with the nuclear facility to provide additional revenues and reserves. Additional sources of revenue may be needed if the District does not enter into new agreements with the nuclear facility or if the new agreements do not provide revenues and reserves that are comparable to the original PILOT and tax stabilization agreements.

² Under the PILOT agreement, the payments from the nuclear facility to the District went from \$23.3 million in 2001 to \$14.9 million in 2005, at which time they began to gradually increase to \$21.4 million in 2013.

³ Tax stabilization agreement payments from the nuclear facility to the District totaled \$6,373,496 in 2001-02, \$6,727,315 in 2002-03, and \$423,397 in 2003-04.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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Office of the State Comptroller

August 21, 2013

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New Windsor, NY 12553

This letter is a response to the State of New York Office of the State Comptroller's Report Examination 2013 M-241 which covers periods from July 1, 2011, through June 30, 2013. The Hendrick Hudson School District Board of Education and Superintendent of Schools is very appreciative for the work that was performed in our school district. The comments and suggestions were very in-depth, were welcomed and helpful for all of us and the administration of our schools. The Business Office highly respected [REDACTED] knowledge, comments and suggestions. It was important for both the Board of Education and administration to get an independent audit to ensure that the Business Office is run based on best practices.

Sincerely,

MaryPat Braggi, President Board of Education

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The Office of the State Comptroller's Fiscal Stress Monitoring System evaluates local governments based on financial and environmental indicators. These indicators are calculated using the local government's annual update document⁴ and information from the United States Census Bureau, New York State Department of Labor, and the New York State Education Department, among other sources. The District has demonstrated signs of fiscal stress in several areas.⁵ Due to these fiscal stress indicators, we selected the District for audit.

Our overall goal was to examine the District's financial condition. To achieve our financial condition objective and obtain valid audit evidence, we performed the following audit procedures:

- We reviewed the District's policies and procedures for developing and reporting information relevant to financial and budgeting activities.
- We interviewed District officials to determine what processes were in place and gain an understanding of the District's financial situation and budget.
- We compared budget-to-actual expenditures and revenues for the 2010-11, 2011-12 and 2012-13 fiscal years to determine if the District was consistently over- or under-budgeting and investigated significant variances.
- We evaluated the District's operating results and resulting fund balance for the audit period.
- We reviewed the District's reserves for the audit period.
- We obtained the District's budget-to-actual expenditures and revenues for the period ending June 30, 2013, and using that information, we estimated the June 30, 2013, operating results.
- We calculated the surplus fund balance as a percentage of the ensuing years' budgeted appropriations for the audit period.
- We reviewed the tax stabilization legislation passed by the New York State Legislature in 2001.

We conducted this performance audit in accordance with generally accepted government auditing standards (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.

⁴ Required to be submitted annually by the District to the Office of the State Comptroller

⁵ The District was selected for audit due to concerns about its financial condition. More specifically, the fund balance for the general fund decreased by \$4.9 million over the past four years.

APPENDIX C

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Andrew A. SanFilippo, Executive Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

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