



Shoreham-Wading River Central School District

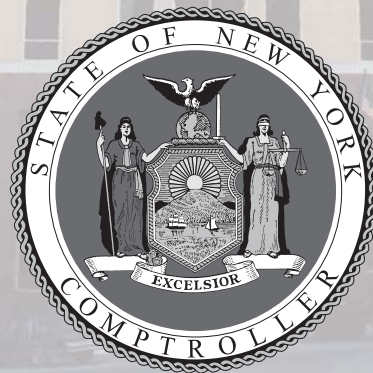
Financial Condition

Report of Examination

Period Covered:

July 1, 2008 — April 30, 2010

2010M-167



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2011

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' 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 district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Shoreham-Wading River 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 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*

Introduction

Background

The Shoreham-Wading River Central School District (District) is located in the Towns of Brookhaven and Riverhead, Suffolk County. 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 other administrative staff, for the District's day-to-day management under the direction of the Board.

There are five schools in operation within the District, with more than 2,700 students and approximately 300 employees. For the period ending June 30, 2010, the District spent approximately \$55.6 million, funded primarily with State Aid, real property taxes, and grants.

Objective

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

- Has the District taken adequate action to address the deficient balance in its general fund and to monitor revenues and expenditures?

Scope and Methodology

We assessed the District's financial condition for the period July 1, 2008 to April 30, 2010. In addition, we evaluated the District's fund balance from the 2006-07 fiscal year through the 2009-10 fiscal year. We determined the major revenues and expenditures for these years and analyzed trends to determine the factors leading to the \$1.7 million deficit on June 30, 2009. The tests included observation, inquiry, and examination of documents and records for the stated period.

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 C 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. Appendix B contains our comment on one issue raised in the response.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the GML, 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 forwarded to our office within 90 days. 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 the CAP available for public review in the District Clerk's office.

Financial Condition

A school district's financial condition is an important factor in its ability to fund public educational services for its students. Districts in good financial condition collect sufficient revenues to pay short-term bills and meet the current portion of long-term obligations. The Board and District officials are responsible for effective financial planning and management activities, including the preparation, adoption, and amendment of budgets based on reasonable and accurate assessments of anticipated resources to fund appropriations. It is essential for Board members to know the District's financial condition and develop realistic, structurally balanced budgets to finance operations without an over-reliance on fund balance or non-recurring revenues. The annual budget is a plan, subject to modifications when appropriate, that provides District officials with the information necessary to control District spending and ensure revenue projections are being met during the year. The Board and District officials must make sure that budgets are prepared, adopted, and amended based upon reasonable and accurate assessments of resources used to fund appropriations. In preparing the budget, the Board and District officials are responsible for using the most reliable information available at the time, such as historical costs, available contracts, and State aid information.

State aid revenues represent a significant portion of school district annual budgets. Because of their significance, fluctuations in aid levels can have a considerable impact on revenues realized. The New York State Education Department (SED) prepares preliminary State aid estimate reports based on the New York State budget each spring, to allow school districts to prepare their budgets for the following year. SED provides this information at several points in time during the spring, and updates the information as the State budget process progresses. It is incumbent upon school district officials to be aware of these changing estimates and to use the most up-to-date estimates when finalizing their budgets. The District does not control the amount of State aid it receives. Consequently, there are budget risks associated with these revenues. Changes in State policy could have a significant impact on these revenue streams. We found that, in two consecutive fiscal years, District officials did not realize prior years' State aid for which they had budgeted, resulting in a significant decline in the District's fund balance.

The District's fund balance declined significantly from an unreserved general fund balance of approximately \$4.1 million at June 30, 2006 to an unreserved fund deficit of approximately \$2.8 million at June 30, 2008. This was a decline of approximately 167 percent. Although

the District overexpended certain appropriations during the 2006-07 fiscal year, such as employee benefits, by a total of \$837,000,¹ which reduced the unreserved fund balance to about \$1.5 million, the deficit occurred primarily because the District did not receive approximately \$3.3 million of prior years' State aid that it had expected to collect in the 2007-08 fiscal year, and about \$1.8 million in 2008-09. However, by closely monitoring the budget, reducing expenditures, utilizing reserve funds, and increasing real property taxes, the District was able to improve its financial position and achieve a positive \$2.5 million fund balance at June 30, 2010.

The District submitted State aid claims for the fiscal years 1986-87 through 2000-01 to SED for approximately \$66 million in State aid that it had not received in prior years due to an improper adjustment of the State aid formula when the Shoreham Nuclear Power Plant was removed from the tax rolls. In 2006, SED approved \$35.8 million of the District's request for prior years' State aid for the 1986-87 through 1994-95 fiscal years, but denied the District an additional \$30.2 million for fiscal years 1995-96 to 2000-01. According to the 2006 letter from SED, the \$30.2 million was denied because of the provisions in Education Law which make the aid received in those years final and not subject to change.

From 2006 through 2008, the New York State Legislature enacted a number of laws enumerating exactly how the District could use the \$35.8 million of prior years' State aid. Chapter 61 of the Laws of 2006 required that the District use the prior years' State aid to establish a tax stabilization reserve and to freeze the District's tax rate at the 2005-06 level. It also authorized the District to issue bonds for the full amount of the prior years' State aid through the Municipal Bond Banking Agency (MBBA). The District eventually decided not to issue the bonds, having deemed the attached conditions too costly. Chapter 240 of the Laws of 2007 amended the 2006 law to limit the tax rate freeze to the 2007-08, 2008-09, and 2009-10 fiscal years. District officials informed us that they understood the intent of this legislation to be to freeze the tax rate and have the prior years' State aid replace the lost tax revenue. Because this legislation was passed, District officials understood this to mean that the District would be receiving the prior years' State aid in 2007-08.

For the 2007-08 fiscal year, the District adopted an operating budget that was \$2.9 million higher than the 2006-07 budget. Because the legislation required the District to use the 2005-06 tax rate, the District was only able to increase its 2007-08 real property tax levy

¹ The \$837,000 is the difference between the District's actual expenditures for 2006-07, less the amounts appropriated in the original adopted budget voted on by taxpayers.

by about \$165,600 from the previous year. The District relied on receiving approximately \$3.3 million of the prior years' State aid, to finance the remainder of the increase to its operating budget, based upon its understanding of the intent of the 2006 and 2007 legislation. However, the District did not receive any other documentation from SED to indicate that they would be receiving prior years' State aid during the 2007-08 fiscal year. District officials stated that they did not decide until after June 30, 2008 that they would not be issuing bonds through the MBBA. Because the District did not receive the prior years' State aid or issue bonds, it caused a revenue shortfall that resulted in an unreserved general fund deficit of approximately \$2.8 million. Furthermore, because the District did not realize until July 2008 that it would not be receiving the prior years' State aid, and it was still subject to the tax rate freeze in 2008-09, the District again included approximately \$9.3 million of prior years' State aid in its 2008-09 budget. However, District records indicate that the District received only \$7.6 million.

Prior Years' State Aid Revenue		
	Fiscal Years Ended June 30th	
Revenues	2008	2009
Budgeted	\$3,336,936	\$9,329,841
Actual	\$0	\$7,567,424
Variance	\$3,336,936	\$1,762,417

Chapter 298 of the Laws of 2008 rescinded the authorization to issue bonds and instead authorized the District to issue revenue anticipation notes (RANs)² for the expected prior years' State aid.³ In August 2008, the District issued a RAN for \$11.4 million. The District also used nearly \$760,000 of its reserve funds in the 2008-09 fiscal year. In addition, the District did not use the full amount of certain appropriations contained in its original 2008-09 budget. For example, an energy performance assessment resulted in fuel and electric savings of about \$570,000, lower than expected health insurance rate increases resulted in savings of about \$488,000, and an unexpected decrease in out-of-District transportation costs resulted in an additional savings of \$353,000. As a result, the District was able to improve its financial condition to an unreserved general fund deficit of \$1.7 million at June 30, 2009.

² RANs are a form of short-term debt that would allow the District to meet its immediate cash flow needs by borrowing against revenue that it expects to recognize within a one-year period. Proceeds from RANs represent a liability and may not be recognized as revenue.

³ Upon receipt of the prior years' State aid, Chapter 298 of the Laws of 2008 requires the District to first use it to repay the RANs, then to mitigate tax increases, and finally for voter-approved capital projects.

Chapter 298 of the Laws of 2008 lifted the tax rate freeze for the 2009-10 fiscal year. This allowed the District to raise additional revenue through a 26 percent increase in its 2009-10 real property tax rate. The District did not include any prior years' State aid in the 2009-10 budget. To achieve further savings, the District also implemented a mid-year spending freeze and continued to monitor its budget closely. Consequently, the District was able to work within all of its legislative requirements to overcome the two-year deficit. As of June 30, 2010, the District had an unreserved general fund balance of \$2.5 million.

Recommendation

1. The Board and District officials should continue to develop realistic, structurally balanced budgets that do not rely on non-recurring revenues to finance recurring operating expenditures and should continue to monitor revenues and expenditures throughout the fiscal year.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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Director of Student Services

Glen Arcuri
Director of Finance and Operations

Alan Meinster
Director of Curriculum and Instruction

Lou Curra
Interim Asst. Supt. for Human Resources

Robert C. Woolsey
Plant Facilities Administrator

February 14, 2011

State of New York
Office of the State Comptroller
NYS Office Bldg, Room 3A 10
Veterans Memorial Highway
Hauppauge, New York 11788-5533

Dear Mr. McCracken,

The Shoreham-Wading River School District would like to take this opportunity to thank the Office of the State Comptroller and their team of auditors for their professionalism in conducting the audit on the financial condition of our School District. Shoreham-Wading River CSD is a very unique district as it relates to legal and budgetary constraints specific to legislation written for Prior Years' State Aid. The audit team has managed to take a very complex financial and legal issue and present it in a usable manner.

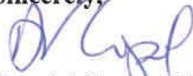
The District is pleased with the findings of the State Comptroller's Audit, and will continue to develop realistic, structurally balanced budgets relying on revenue that is reasonably expected to be realized in the upcoming year while continuing to monitor revenues and expenditures during the fiscal year.

While the District is pleased with the recommendation of the State Comptroller's Audit, there is wording within the body of the report that the District feels needs further clarification to present an accurate picture of the District's financial history. Under "Financial Condition" third paragraph, the report states that certain expenditures in the 2006-2007 fiscal year were over expended. This statement is a comparison to the original budget not the adjusted budget. The adjusted budget includes Board of Education approved use of reserves, budget transfers, and the acceptance of donations. As outlined in the District's Independent Audit Report for the 2006-2007 school year, overall expenditures and encumbrances were actually under expended by \$50,699.

See
Note 1
Page 11

Thank you again for the opportunity to respond and for the continued oversight of School Districts.

Sincerely,



Harriet Copel, Ed.D.
Superintendent of Schools

Board of Education:

Jack Costas, President – Marie Lindell, Vice President

Robert Alcorn, Trustee – Michael Fucito, Trustee – Leo Greeley, Trustee – W.J. McGrath, Ph.D., Trustee – Richard Pluschau, Trustee

APPENDIX B

OSC'S COMMENT ON THE DISTRICT'S RESPONSE

Note 1

The District's actual expenditures for 2006-07 were \$48,503,374, which was approximately \$837,000 more than its original budget of \$47,666,280. Our comparison uses the District's original budget because that is the budget that was presented to, and voted on, by taxpayers. The District's adjusted budget contains changes that were approved by the Board, but were not subject to taxpayer approval.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed appropriate District officials, performed limited tests of selected records and transactions, and reviewed pertinent documents for the period July 1, 2008 through April 30, 2010. Our examination included the following:

- We analyzed the changes in fund balance of the general fund for the 2004-05 through 2008-09 fiscal years to determine the fund deficit trends, as reported in independent audit reports, and evaluated the major factors contributing to operating deficits for those years.
- We reviewed actual revenues and expenditures for July 1, 2009 through April 30, 2010 to verify the reasonableness of the District's projection of the results of operation for the general fund as of June 30, 2010.
- We verified the reasonableness of the District's adopted 2010-11 budget by reviewing some of the larger line items and/or changes from the previous year.

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.

APPENDIX D

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