

North Shore Schools
Audit Committee Meeting
November 10, 2022
7:25 P.M.
Glenwood Landing School Auditorium

Present: Trustees David Ludmar, Lisa Cashman, Lisa Colacioppo, Maria Mosca, Marianne M. Russo. Committee Members Mr. Andrew Spieler and Mr. Roger Friedman. Superintendent Dr. Christopher Zublionis and Assistant Superintendents Dr. Carol Smyth and Mr. James Pappas. External (Independent Auditor) Mr. Alan Yu of Cullen Danowski. Trustees Andrea Macari and Richard Galati were absent.

President Ludmar welcomed the returning Trustees, new Trustee Lisa Cashman, and community members Mr. Andrew Spieler (returning) and Mr. Roger Friedman. He explained that the District is required to have a financial audit annually. The auditors have provided a draft copy of the audit reports to the Audit Committee prior to the meeting. Once these documents have been reviewed by the committee with the auditor, there will be a recommendation to formally accept them.

Mr. Yu explained that they have prepared two reports, the financial statement and the extra-classroom activity account. He explained that the financial statements are prepared on behalf of the District and reviewed with Mr. Pappas. He further explained that there are two sets of financial statements; one based on government accounting standards is the operating results of various funds, the primary one being the general fund. This is the primary indicator of the financial health of the school district. The second set of financial statements is the long-term financial view of the school district. GASB 34 requires that capital assets be shown on the liability side of the balance sheet including long-term liability for items such as the benefits from the EPC, values for OPEB (health insurance for retirees and future retirees). He further explained that this can be confusing when looking at the long-term liability on the financial statement as it often is a deficit. However, the District is not required, nor can they fund for these liabilities. He said the focus should be on the general fund financial statement (pages 21-23) in the report.

Mr. Yu reported that at the present time the district has roughly 20.3% of spending which is quite good and very reasonable. He has been the District's external auditor for 7 years, and has seen a decline in fund balance, he has seen the spending down of the grants over the years and in the 2022-23 school year he noted those special designated funds have been utilized fully. He further noted that in the 2022-23 budget the assigned fund balance is \$4.63M, measured against next year's budget this is 4% and is in compliance with Real Property Law.

Mr. Yu reported that revenues total \$110M in general fund and general fund had basically a break-even year with a surplus of \$16,000. The areas that account for revenue increase are taxes and PILOTs, capital projects reimbursement and the FEMA reimbursement which was received in September of 2022. He noted that the District has been using fund balance to pay for debt service. Reporting on expenditures, the areas that have increased are salaries, employee benefits (health insurance went up approximately 9% and retirement contribution went up 6%). Transfer to debt service also increased due to borrowing for a bond a year ago and the EPC. Mr. Yu reported that legal expenditures had increased quite a bit in the 2020-21 school year to \$950,000 but did come down in 2021-2022. They are

not quite at the level of the past but seem to be trending down. He also noted that interest rates for Tax Anticipation Notes (TANs) was at 1.5% but has increased to 4.5%.

Mr. Yu reported that all areas tested showed no material weakness, the District is stable and the overall expenditures and open purchase orders and encumbrances indicate expenses are 98.6% of the budget. He further reported that the District has done a very good job with budgeting which has historically been the case; the only exception was COVID year and this was the same with all districts. He stated that no one at the state level can accuse the District that the budget has too much “fluff” in it.

The committee discussed the report.

Mr. Spieler asked Mr. Yu to give an overview of what procedures were used, what his auditing firm looked at and what they tested.

Mr. Yu explained that they primarily focus on cycles, for example payroll, cash disbursements, cash receipts, management overrides. They begin with interviewing district personnel, they look for changes in procedures, test internal controls to see they are operating effectively. They test the numbers substantively. For payroll they test based on samples and do analysis by contract pays, compare from one year to another to check for outliers, payroll tax reconciliation is also looked at. Similar identity procedures and testing of internal controls are performed on other expenditures and cash disbursements. Checks on whether there is a purchase order in place, does the invoice match, was the correct code recorded, are explanations from management reasonable. Regarding revenue, based on the actual amounts that came in, they make sure the revenues are recorded. The amounts of the transactions determine how they select which to look at. For state aid, they compare the reports on the website to what the district has recorded to make sure it has been recorded properly.

Mr. Friedman asked what the threshold is for testing. He asked if management provided all the auditors asked for, whether there were any procedural issues that need to be addressed, how many audits Mr. Yu’s firm conducts and how North Shore stacks up as far as internal controls and adherence to procedures to those other clients.

Mr. Yu responded that the threshold is high. They do not test below \$400,000. He explained that management did provide all that his firm asked for, there were no procedural issues that needed to be addressed and there were no concerns. His firm has almost 50 clients and currently has 15 audit engagements. He said North Shore is in the upper echelon of the audits he conducts. He said most districts have tightened their internal controls, some have challenges, but North Shore is not one of them. He clarified that this is not a forensic audit.

Mr. Friedman asked if the percentage of reserves to income is a good level; whether that is too high or too low. Mr. Yu explained that the District is at 20.3% and that New York State will not say what the appropriate level is, therefore they look to various sources to figure out what is an appropriate level. One area is the OSC (Office of the State Comptroller). Their Fiscal Stress Monitoring System works on a fiscal stress points system where the floor is 10% and the upper limit suggests there should be at least two months of operating fund balance (that would equal 16%) so anywhere between 10-16%. School Districts also have the 4% maximum unrestricted fund balance, and there are a number of legal reserves school district are allowed to set up. He further explained that some school districts have as much as 35% in reserves. He noted that having fund balance is crucial, it is a savings account, the question is how much is too much and this needs to be looked at individually.

Mr. Friedman asked how much testing is done, how many different accounts are tested. Mr. Yu responded they test cash, receivables, pre-paid expenditures, general fund, assets, accounts payable, liability differed revenues, fund balances, the entire balance sheet accounts.

Trustee Russo noted we have tracked our COVID expenses and asked if the amount of FEMA recovery funds listed as \$236,755 is what has been recovered to date and whether we can anticipate receiving additional reimbursement. Mr. Pappas responded we continue to file, to date we have filed \$800,000 and hope to receive additional reimbursement but it may be for less than what we have filed for. Mr. Yu explained that whatever is received will become part of fund balance and could be used to offset the budget the following year.

Trustee Russo noted that the ERS reserve has \$5.2M and the TRS reserve has \$2.57M and those reserves can be used to offset obligations in next year's budget planning. Mr. Yu agreed the Board can appropriate part of those funds to the following year's budget if necessary. However, as payroll goes up, the TRS contribution goes up, currently the TRS expenditure is \$5M, the rate is almost at 10%.

Trustee Russo asked if Mr. Yu noted anything unusual in some of the extra-classroom activity funds as there were some large carried over balances. She asked whether they should be looking at anything, possibly tracking the returning balances, specifically with balance left from graduating seniors. She asked if there is any guidance on how much money can be carried over from year to year. Mr. Yu said there are state guidelines and requirements concerning the clubs. In addition, North Shore put together guidelines and procedures for clubs. There is turnover of student officers and faculty advisors. The administration continues to educate and provide training to the supervisors to ensure the district policies and procedures are being followed. The auditors did testing on the clubs and there were no significant findings for the receipts and disbursements. Mr. Yu reported that overall, they are doing a good job of documentation and following the policies and procedures. Further, he reported that graduating seniors always have a say in what to do with leftover funds. If there is no decision by the seniors, often times it is transferred into the student government account. Regarding how much money can be carried forward, Mr. Yu explained there is no guidance or requirement from the Commissioner, although the school board may build that into a policy. Currently there is no such requirement at the Board level or at the state level. He said it is up to the members of the club, the membership should decide what to do with the money; it is their prerogative.

Mr. Friedman asked if the FEMA reimbursement would affect the tax cap calculation. Mr. Pappas explained that the FEMA funds would affect fund balance, the tax cap has to do with the tax levy. President Ludmar clarified it is extra revenue that has to be either put in reserves or offset taxes.

President Ludmar asked if Mr. Yu is comfortable with the District spending 98.6% of the budget; he wants to be sure this is not too close. Mr. Yu responded that he feels fine with this number and the Comptroller feels spending 97% or more is a good number. President Ludmar asked if there are other areas or techniques to manage cash flow, with interest so high and rising for borrowing through TANs. He wondered if there are other remedies that they can work with to reduce this necessity. Mr. Yu explained that there are not many options for school districts. They are permitted to borrow from their reserve funds, but there are very limited reserves that they are allowed to borrow from. Although the unassigned fund balance is one of those, Mr. Yu does not recommend going down below the 4% maximum with the tax cap law in place.

Finally, Mr. Yu reported that this is a very strong report. He commended the Board for getting the unassigned fund balance back to 4% and for returning the school lunch program to full strength.

The meeting was adjourned at 8:35 pm.

By: Elizabeth Ciampi
District Clerk