



January 19, 2017

RALPH MARINO, JR., Ed.D.
Superintendent

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Mr. Ira McCracken
Chief Examiner
Office of the New York State Comptroller
NYS Office Building, Room #3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533

Dear Mr. McCracken:

On behalf of Hewlett-Woodmere Public Schools, thank you for providing us with an opportunity to respond to the Financial Condition Report of Examination (the "Draft Audit Report" or "Report"). We take note of the fact that your review covers the period from July 1, 2012, through May 31, 2016.

Hewlett-Woodmere Public Schools is committed to providing outstanding educational programs and world-class opportunities for all students. We pride ourselves in our ability to develop the whole child, both academically and socially. Through our small class sizes and rich academic programs, we proudly prepare our students to be global citizens, as well as college and career ready.

At the same time, we are equally committed to our financial responsibility to the community. The District's budget planning and development process is based on the delicate balance between providing the educational opportunities the community has come to expect from Hewlett-Woodmere Public Schools, and keeping a watchful eye on spending. Maintaining our instructional programs and services has become even more challenging in light of the tax levy cap, unfunded/underfunded mandates, loss of state aid, and frozen aid formulas. Clearly, our philosophy with respect to financial planning and budgeting is to ensure that we have the resources available to continue to provide the best educational programs possible for our students long into the future.

The community consistently demonstrates their support for the District's budgetary decisions, as evidenced by more than 70% of the voters approving the proposed budgets in recent years. Similarly, in 2015, the voters approved the establishment of a \$25 million Capital Reserve fund. In 2016, the community authorized a \$10.8 million Capital Project that is funded through our Capital Reserves and available fund balance.

The financial condition of Hewlett-Woodmere Public Schools remains excellent. Notably, Moody's has repeatedly commended the District for maintaining well-funded reserves and fund balances, which has resulted in a Moody's Bond rating of Aa1. Our strong financial position, responsible

budgeting, and long-term planning has allowed us to avoid the tough financial decisions and short-term cash flow borrowing plaguing many other districts.

The District acknowledges the opinions in the Draft Audit Report regarding budgeting and use of fund balance. Given vast financial uncertainties and the unpredictability of budget development, we created budgets that anticipated significant expenditures, such as an increase in special education students, an increase in the cost of health insurance, or the cost of salary settlements for expiring contracts. We concur that some of these predictions resulted in substantial fund balances, however, it was always the District's understanding and belief that we were in compliance with both the law and our Fund Balance Policy (#6145).

As you are aware, with respect to fund balance, we set aside the legal undesignated 4%. In addition, we applied appropriated fund balances to manage the tax levy and put any other available balances into our reserves. We began the process of addressing "contingencies" during the development of the 2016-2017 budget, and this process is continuing this year. Specifically, the business office has been analyzing actual expenditure data over the past five years in order to develop budgets more in line with actual expenses. In particular, we are looking closely at the codes associated with special education programs, teachers' salaries, employee health insurance, and transportation. It is important to keep in mind that those surpluses and contingencies did not accumulate over one budget year. Therefore, our Corrective Action Plan is to steadily and systematically correct these budget appropriations over multiple budget years. Also of note, over the past five years, the District's budget-to-budget increases have averaged about 2%. This year, for the second year in a row, the District is planning a zero increase in the tax levy.

The District acknowledges the opinions in the Draft Audit Report regarding the District's reserves. Currently, we have nine reserve funds, some of which were established as far back as 1979. It is important to note that the audit by OSC in 2008 did not identify any of the District's reserves as contrary to General Municipal Law. Prior to the completion of your audit, the District began working with the Audit Committee to develop a comprehensive Reserve Fund Management Plan. This Reserve Fund Management Plan outlines the strategy the District will take for each of our nine reserves. These strategies may include closing certain accounts, adjusting funding levels, and plans for the transfer of funds to other reserves. The Reserve Fund Management Plan will be shared with your office as part of the Corrective Action Plan associated with this audit.

It is important to note that OSC recommends the establishment of reserves as an integral part of managing the fiscal health of a school district. Never was this more indisputable than in 2012 when the District suffered sizable losses due to Superstorm Sandy. Our insurance reserves helped us close coverage gaps that otherwise would have jeopardized our ability to make necessary repairs. Also, the existence of our current reserves will assist us in accomplishing a significant portion of a \$100 million District-wide capital improvements initiative identified in our Five-Year Building Condition Survey. The establishment of a new Capital Projects reserve will be presented to voters in May 2017 for approval. These projects, once approved, can be accomplished without the need to borrow money

or raise taxes. This action will also help to “right size” any reserves that have been identified as overfunded.

The District takes pride in developing budgets that allow us to preserve the educational and community programs that make Hewlett-Woodmere such a special place to learn and grow, while keeping a watchful eye on the bottom line for our taxpayers. Once again, the District appreciates and respectfully acknowledges the Comptroller’s recommendations regarding our fiscal practices. As always, our goal is to maintain the exceptional education provided by Hewlett-Woodmere Public Schools well into the future. We look forward to the submission of our Corrective Action Plan which will provide greater details on how we plan to address each of the recommendations.

Sincerely,

A handwritten signature in black ink, appearing to read "Ralph Marino, Jr.", written in a cursive style.

Ralph Marino, Jr., Ed.D.
Superintendent