

GF&H: TRUST...VISION...LEADERSHIP...INNOVATION...VALUE

CHARLESTON COUNTY SCHOOL DISTRICT

Financial Audit Presentation
for the Year Ended
June 30, 2011

Charleston > excellence is our standard
County SCHOOL DISTRICT





CCSD Financial Audit-June 30, 2011

Highlights

- The District built a healthy fund balance as of June 30, 2011 to offset the loss of ARRA funding in fiscal year 2012.
- The District exceeded its goal of having 5% in unassigned fund balance as of June 30, 2011





CCSD Financial Audit-June 30, 2011

- The Financial Statements are the District's responsibility
- Maintaining an effective internal control system (to prevent and detect errors and fraud) is the District's responsibility
- Our responsibility: to express an opinion on the Financial Statements
- Reasonable assurance that financial statements are materially correct
- We issued an unqualified opinion
 - **Best opinion the District can receive**



CCSD Financial Audit-June 30, 2011

- **The Risk of Fraud**

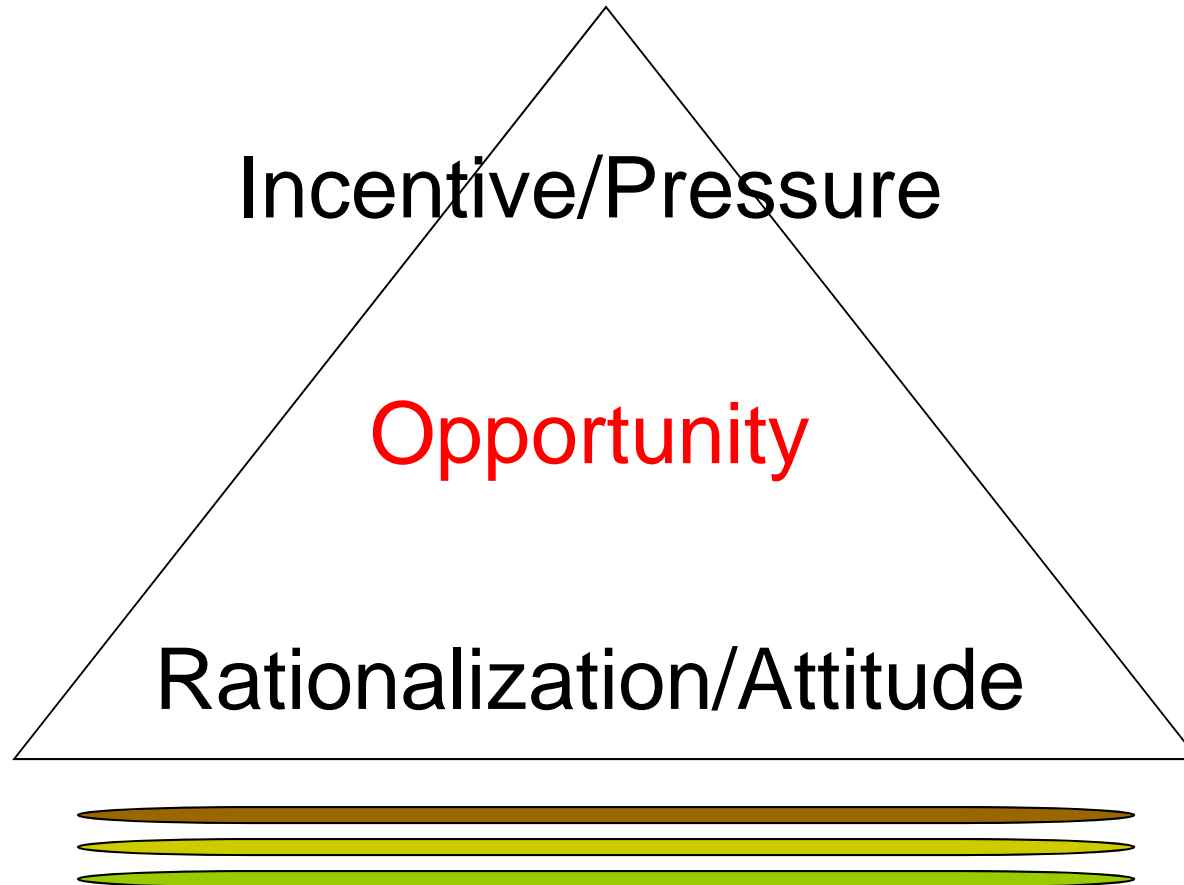
- Maintaining an effective internal control system (to prevent and detect errors and fraud) is the District's responsibility
- Expectation gap
- Reasonable assurance essentially means the external auditors should find fraud if it is material in a fiscal year, but most fraud is not material.
- The most common methods for initially finding fraud are through:
 - Tips including those through a hot line (40%).
 - Management review (15%).
 - Internal controls (15%).
 - Internal audit (14%).
 - Accidental detection (8%).
 - External audit and other (8%)



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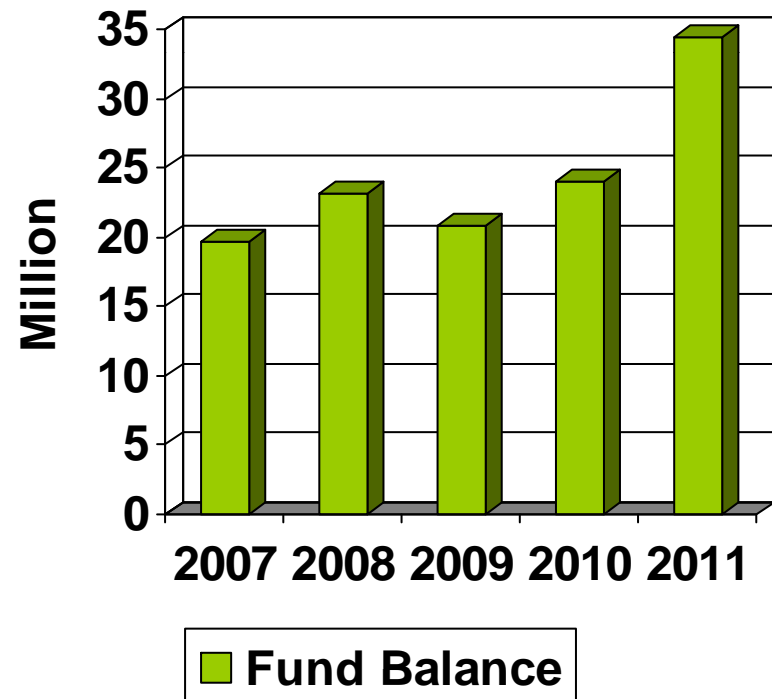
FRAUD RISK TRIANGLE



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General Fund:

- Increase in total Fund Balance of \$10.4 million
- Fund Balance was \$34.4 million at 6/30/11
 - Represents 10.3% of 2012 budgeted expenditures
 - GFOA recommends 17% (two months of expenditures)



CCSD Financial Audit-June 30, 2010

General Fund – Fund Balance - [Page 20 of F/S](#):

– Fund Balance (in millions):	<u>2011</u>	<u>2010</u>
• Nonspendable - inventory	\$ 0.3	\$ 0.3
• Assigned - encumbrances	1.4	0.8
• Assigned - FY2012 budgeted shortfall	3.4	6.9
• Unassigned	<u>29.3</u>	<u>16.0</u>
– Total Fund Balance	\$ 34.4	\$ 24.0
– Note: Unassigned fund balance includes the five percent minimum fund balance policy amounts of \$16.5 million in 2011 and \$15.1 million in 2010.		





CCSD Financial Audit-June 30, 2011

Why is a Healthy Fund Balance Important?

- Provides the necessary cash flow through the end of the calendar year until tax revenues are received – decreases the dependence upon Tax Anticipation Notes
- Important given the current economy-the possibility of additional cuts from the State and an expected slow recovery
- Potential for better bond ratings and therefore lower interest rates on debt issuances
- Allows for emergencies and unanticipated events
- Should include major planned expenditures/revenue losses (i.e. no stimulus for 2011-12 fiscal year)

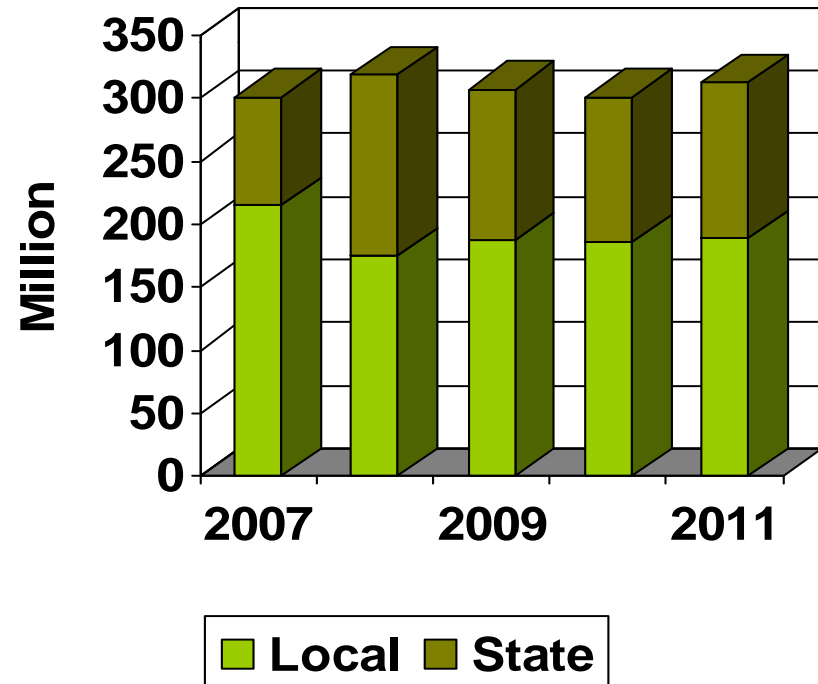


CCSD Financial Audit-June 30, 2011

General Fund Revenue

Page 24 and 60 of F/S

- \$12.1M increase from the prior year to \$313.4M
 - Local revenues increased \$2.6M
 - \$3.0M increase in property taxes
 - \$.4M decrease in other local revenues (interest, contributions/donations, etc.)
 - State revenues increased \$9.5M
 - EFA increased \$6.8M
- \$10.4M (3.4%) over final 2011 budget – almost all due to higher state revenues (\$5.7M over budget) and property taxes (\$4.9M over budget)

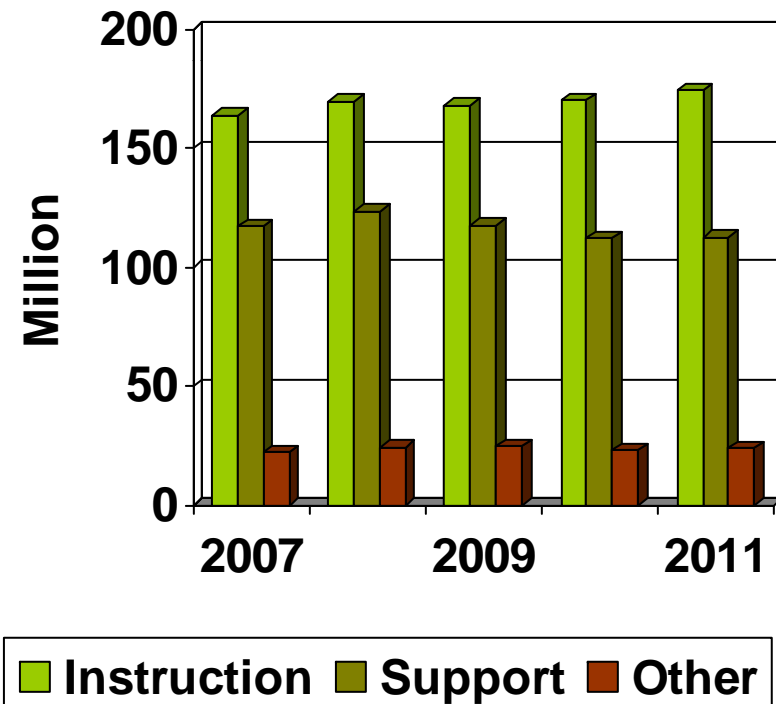


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General Fund Expenditures

- \$5.4M increase from the prior year to \$310.9M
 - Instruction of \$174.5M (up \$4.4M) – *primarily from increases in salaries and related expenditures*
 - Support Services of \$112.5M (up \$0.2M) – *shift of operations and maintenance costs to Special Revenues funds due to Federal stimulus funding offset by increased custodial contract expenditures*
 - Charter school subsidies of \$23.2M – (up \$1.0M) due to increased SFSF funding
 - Other expenditures of \$.6M (down \$0.1M)
- \$7.6M (2.4%) under final 2011 budget –lower support services and charter school subsidies

Page 24 and 60 of F/S



CCSD Financial Audit-June 30, 2011

Special Project and EIA Funds

Pages 24, 61 and 62 of F/S

- **Special Project Funds** – Federal and state programs and grants (Title I, IDEA, ARRA funds, etc.) Approximately 90 grants / programs - totaling \$78.6 million, which was an increase of \$14.1 million from the prior year
 - Stimulus (ARRA) provided over \$30.7 million in 2011
 - Note that these funds will not be available after September 2011
 - \$12.5 million of these ARRA funds were SFSF funds that were used to defray General Fund costs (primarily utilities)
- **Education Improvement Act Funds** – Funded by the State’s EIA Act of 1984. Approximately 24 programs - totaling \$24.6 million, which was a decrease of \$5.4 million from the prior year due to state funding cuts and planned revenue deferrals to offset the loss of ARRA funding in 2012.
- The District is constrained by federal and state requirements to use these funds only as allowed by the applicable grants.
- No Fund Balance generally for these funds as any unspent funds must be returned to the State or carried over to the next year.

CCSD Financial Audit-June 30, 2011

Other Funds

- **Food Service** – increase in fund balance of \$2.1M for 2011; fund balance at 6/30/11 of \$5.6M (Page 21, 25 and 105 of F/S):
 - Fund balance is over 30% of 2011's operating costs – healthy fund balance, representing 3.6 months of expenditures; SDE guideline is 3 months (25%)
- **Debt Service (District)** – \$5.9M deficit in fund balance, last year's deficit was \$1.8M; increase in deficit due to \$7.4M increase in short-term outstanding debt – over \$25M outstanding at 6/30/11 (Page 21, 25 and 107 of F/S)
- **Debt Service (CEEF)** - \$71.7 million fund balance; primarily amounts set aside for debt service reserves in accordance with the CEEF bond agreements (Page 21, 25 and 108 of F/S)





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Other Funds

- **Capital Projects (District and CEEF)** - \$136.1 million fund balance to be used for planned capital projects ([Page 21, 25, 109 and 110 of F/S](#)); this includes the local one cent sales tax; \$22.3 million in one cent sales tax revenues for 2011



CCSD Financial Audit-June 30, 2011

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District-wide (GASB 34)

- Assets - \$1.290 billion
 - \$969.0 million is capital assets
 - \$240.7 million is cash and investments
- Liabilities - \$997.4 million
 - \$914.0 million is long-term (primarily District and CEEF bonds)
- Net Assets - \$293.3 million
- Revenues - \$543.5 million
- Expenses - \$524.7 million





CCSD Financial Audit-June 30, 2011

Other Items of Note

- Approximately \$48.2 million in capital related expenditures during fiscal 2011
- Outstanding construction commitments (primarily CEEF) of \$12.7 million at 6/30/11; \$7.5 million in encumbrances in Capital Projects – District and \$13.9 million in encumbrances in Capital Projects – CEEF at 6/30/11



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Other Items of Note

- Outstanding District debt at 6/30/11:
 - General Obligation, QZAB Bonds, and SC Energy Obligation -\$234.2M
 - CEEF bonds - \$653.1M
- Required debt service on long-term debt - principal & interest:
 - Fiscal 2011 was \$118.2M – primarily the \$57.9M on the 2010C GO Bond
 - Fiscal 2012 will be \$63.5M



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Other Items of Note (continued)

- The District's short-term borrowings for fiscal 2011 totaled \$138.7 million
 - \$65.0 million Tax Anticipation Note – proceeds used to fund operations until tax revenues were received in the winter – repaid in April 2011
 - \$15.1 million in a Bond Anticipation Note (2011A) – proceeds were used to pay remaining portion of required debt service on the outstanding CEEF debt
 - \$10.0 million in a Bond Anticipation Note (2011B) – proceeds were used to provide funds to pay a portion of the costs to construct, renovate, and equip certain capital improvements that were approved by voters in the once cent sales tax referendum



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Other Items of Note (continued)

- Act 189 Litigation is still ongoing – could result in a significant financial impact to the District if required to provide additional support to charter schools
- Expect changes in the accounting for pensions (includes the SCRS) in the future, as the GASB has an exposure draft in the works – this is not expected to be implemented before 2014



CCSD Financial Audit-June 30, 2011

Subsequent Events:

- **In July 2011, the District issued a Tax Anticipation Note for \$69.0 million**
 - To provide funds for operations until property tax revenues are received in the winter
 - Note plus interest at 2.5% is due in full in April 2012
- **In September 2011, the District issued its General Obligation Refunding Bonds for \$64.2 million**
 - To advance refund a portion of the outstanding 2004A General Obligation Bonds
- **In November 2011, the District issued a General Obligation Bond for \$58.44 million**
 - To partially fund the fiscal 2012 debt service for the outstanding District and CEEF debt, to repay the outstanding Bond Anticipation Note and to provide additional funds for improvements to District facilities
 - Principal and interest at 2.00% are due in full on March 1, 2012





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New Accounting Pronouncement:

GASB 54 was implemented in the fiscal year 2011

- No change in the total Fund Balance, but significant changes in the definitions, categories and components of Fund Balance
- Instead of Reserved, Designated and Undesignated categories, you now have Nonspendable, Restricted, Committed, Assigned and Unassigned



CCSD Financial Audit-June 30, 2011

Required Communications to Board from External Auditors:

– Financial Statement Findings:

- Segregation of Duties at the Schools

– Single Audit:

- Looked at following six programs: State Fiscal Stabilization Fund, IDEA, Title I, Improving Teacher Quality, USDA, and Head Start
- Findings: (1) IDEA Subrecipient Monitoring, (2) ARRA Reporting, (3) Food Service Procurement





CCSD Financial Audit-June 30, 2011

Summary

- Unqualified opinion
- Very good management of finances in tough economic times
- Tough times may continue with slow recovery

