

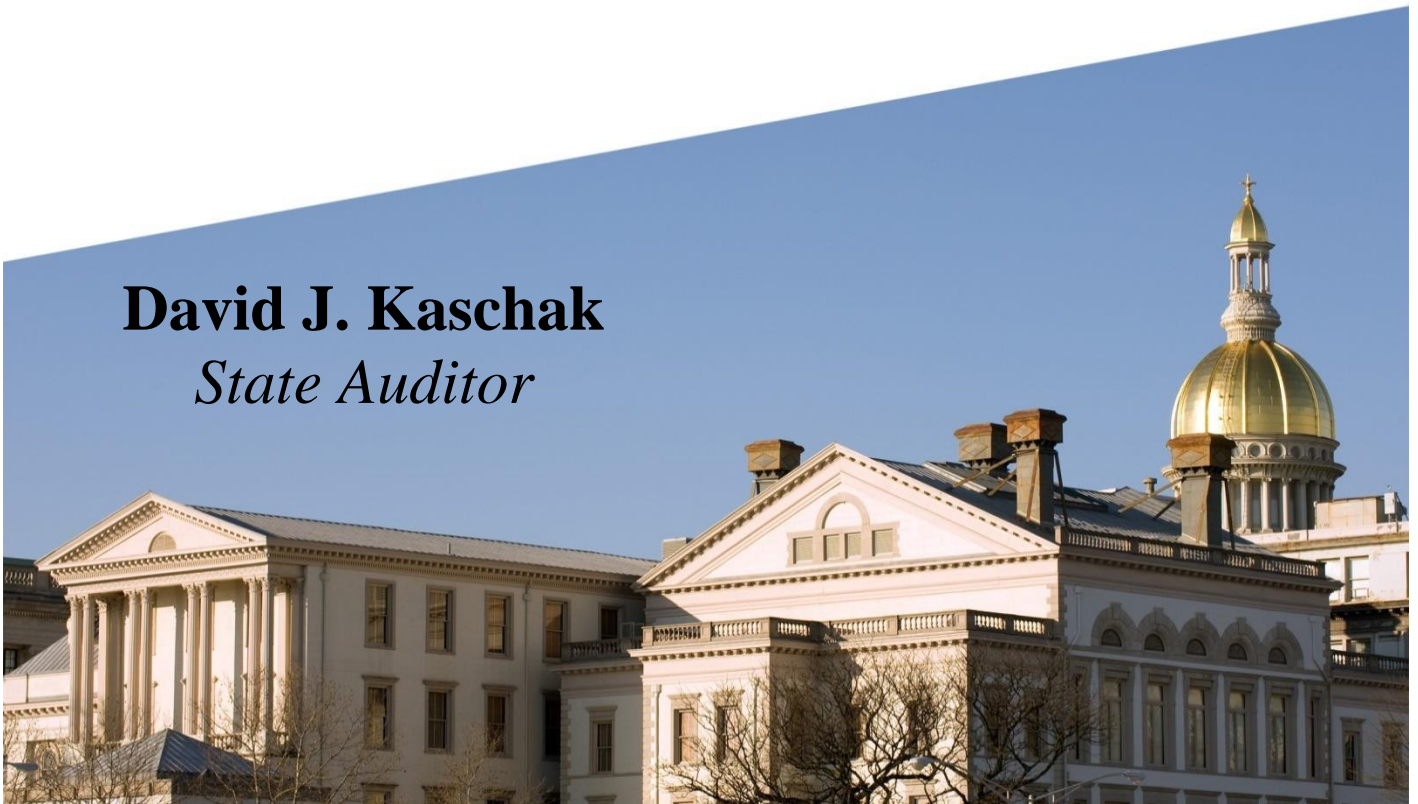


New Jersey Legislature
★ *Office of* LEGISLATIVE SERVICES ★
OFFICE OF THE STATE AUDITOR

Lakewood Public School District

July 1, 2017 to June 30, 2018

David J. Kaschak
State Auditor



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Enclosed is our report on the audit of the Lakewood Public School District for the period of July 1, 2017 to June 30, 2018. Please note that the information included in the district's response and accompanying exhibit was not subjected to any audit procedures, therefore we place no assurance on it. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in cursive script that reads "David J. Kaschak".

David J. Kaschak
State Auditor
May 12, 2022

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Scope

We have completed a forensic audit of the Lakewood Public School District (district), for the period of July 1, 2017 through June 30, 2018. We will also conduct a performance audit of the district after the issuance of this report.

The district provides regular, special education, and vocational services to approximately 5,900 pre-kindergarten through twelfth-grade students enrolled in eight public schools. Our audit included financial activities accounted for in the district's general fund. From fiscal years 2014 through 2018, the district reported year-end unassigned budgetary deficits in the general fund in its Comprehensive Annual Financial Reports. Also during this period, the district received \$18.7 million in state aid advance loans (loans).

Including loans, annual general fund revenues of the district from fiscal years 2014 through 2018 averaged \$133.8 million. Overall, general fund revenues increased \$42.0 million (37 percent) during this period, increasing an average of \$10.5 million per year. Annual general fund expenditures of the district during the same period averaged \$136.2 million. Overall, general fund expenditures increased \$33.8 million (28 percent), increasing an average of \$8.5 million per year.

Objectives

The objective of our audit was to determine the factors that contributed to the fiscal year 2018 year-end unassigned general fund budgetary deficit of \$3,100,041 as reported in the district's Comprehensive Annual Financial Report.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in the School District Fiscal Accountability Act; Title 18A:7A-57 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In preparation for our testing, we studied legislation, the administrative code, and policies of the New Jersey Department of Education (DOE) and the district. Provisions we considered significant were documented, and compliance with those requirements was verified by interview, observation, and through our review of financial transactions. We also read the district's budgets, board minutes, and Comprehensive Annual Financial Reports issued by public school accountants and interviewed district personnel to obtain an understanding of the district's programs and internal controls.

To determine the factors that contributed to the fiscal year 2018 year-end unassigned general fund budgetary deficit, we applied forensic analytical procedures to datasets; performed analyses of financial and demographic information from the district's information systems and Comprehensive Annual Financial Reports; reviewed pertinent documentation provided by the state monitor; and interviewed key personnel from the district and the DOE.

Data Reliability

We assessed the reliability of the district's financial data by reviewing existing information about the data and the system that produced them, interviewing district officials knowledgeable about the data, and comparing the data to the audited financial statements found in the district's Comprehensive Annual Financial Reports. We determined that the data were sufficiently reliable for purposes of this report. Certain other data in our report were used to provide background information. Data that we used for this purpose were obtained from the best available sources. *Government Auditing Standards* do not require us to complete a data reliability assessment for data used for this purpose.

Conclusions

We identified the following factors that contributed to the fiscal year 2018 deficit in the general fund unassigned fund balance: significant and escalating expenditures paid for mandated transportation of nonpublic students sent to nonpublic schools; significant and escalating expenditures paid for tuition of special education students sent out of district to in-state approved private schools for students with disabilities; a loan received that did not cover the projected deficit; budgetary controls and over-expenditure of funds; increased expenditures from the prior fiscal year; and a new expenditure not incurred in prior fiscal years.

We also made observations regarding the following: efficiency standards; subsequent loans; significant loans required to balance budget deficits; limited revenue from local sources and lack of voter authorization to exceed the tax levy growth cap; and limited growth in revenue from state sources.

Background

Appointment of State Monitor

Pursuant to N.J.S.A.18A:7A-55, the Commissioner of Education shall have the authority to appoint a state monitor to provide direct oversight of a district's fiscal operations if the district ends the fiscal year with a deficit balance as calculated for budgetary purposes in the general fund. A state monitor has been appointed to the district since April 2014.

Recommendation of State Aid Advance Loan

Pursuant to N.J.S.A. 18A:7A-56, the Commissioner of Education shall recommend to the state

treasurer whether a state aid advance loan (loan) should be made to a district for which a state monitor has been appointed. The loan shall be recorded by the district as revenue for budgetary purposes for the school year in which it is provided and shall be repaid by the district over a ten-year period through automatic reductions in state aid provided in subsequent years. From fiscal years 2014 through 2018, the district received \$18.7 million in loans.

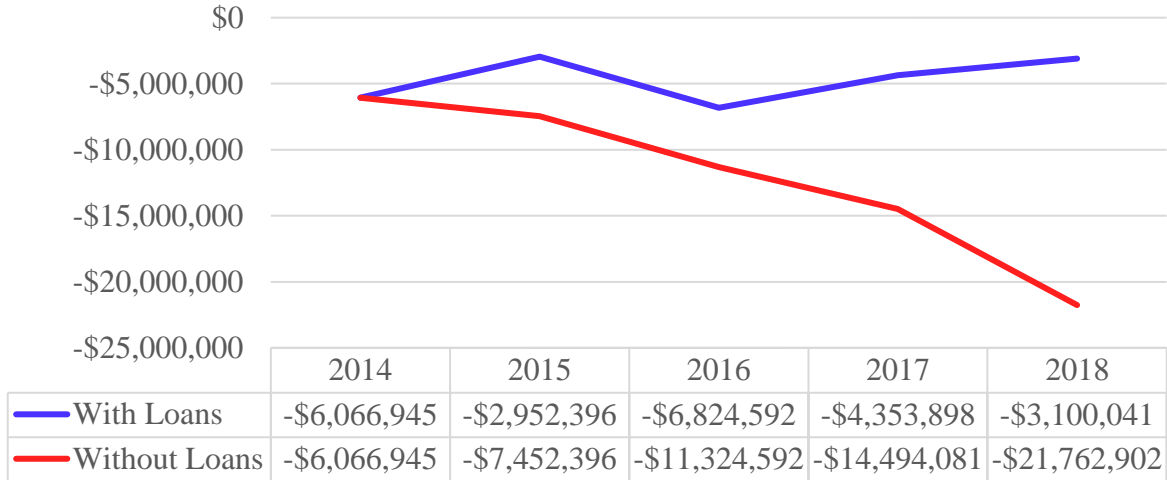
The table below presents the total revenues and top 10 expenditure accounts of the district from the fiscal year 2014 through 2018 Comprehensive Annual Financial Reports.

Lakewood Township School District					
General Fund					
Revenues and Selected Expenditures					
For Fiscal Years 2014 through 2018					
Revenues	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Local	\$ 78,341,981	\$ 86,577,025	\$ 92,869,018	\$ 95,873,689	\$ 98,699,341
State	34,268,921	34,560,679	36,911,671	41,361,205	46,597,928
Federal	414,583	646,603	566,410	1,375,024	1,255,292
Loan	-	4,500,000	-	5,640,183	8,522,678
Total	\$ 113,025,485	\$ 126,284,307	\$ 130,347,099	\$ 144,250,101	\$ 155,075,239
Selected Expenditures					
Tuition	\$ 22,989,657	\$ 26,829,198	\$ 28,137,315	\$ 30,505,479	\$ 33,313,940
Student Transportation Services	21,459,999	23,235,597	26,343,391	25,732,995	29,743,559
Employee Benefits	10,305,594	15,901,672	18,385,404	19,997,879	21,970,547
Regular Programs Instruction	18,525,428	16,658,271	17,971,553	17,632,682	17,587,026
Pension Contributions	5,869,019	6,575,852	7,644,700	8,792,808	10,398,267
Custodial Services	4,502,477	3,836,850	4,537,320	5,112,056	4,707,043
Speech, OT, PT, and Related Services	3,271,117	2,554,913	2,913,690	3,436,016	4,021,606
Bilingual Education	2,666,300	3,484,072	3,394,601	3,154,499	3,142,147
Support Services School Administration	2,649,593	2,626,374	2,998,682	3,041,283	3,040,974
Resource Room	2,713,452	2,425,549	2,737,147	2,171,191	2,912,037
Total	\$ 94,952,636	\$ 104,128,348	\$ 115,063,803	\$ 119,576,888	\$ 130,837,146

General Fund Budgetary Deficits

From fiscal years 2014 through 2018, the district reported deficits in the general fund unassigned fund balance. During this period, expenditures exceeded amounts appropriated by \$19.1 million. Also during this period, the district received \$18.7 million in loans to help balance its budgets. Despite receiving \$18.7 million in loans, the district still reported deficits in the general fund unassigned fund balance. The following chart depicts the deficits in the general fund unassigned fund balance for each fiscal year during this period with and without the receipt of the loans.

**General Fund Budgetary Deficits
With and Without Loans by Fiscal Year**



The table below summarizes the fund balance position and highlights pertinent information from the district’s Comprehensive Annual Financial Reports.

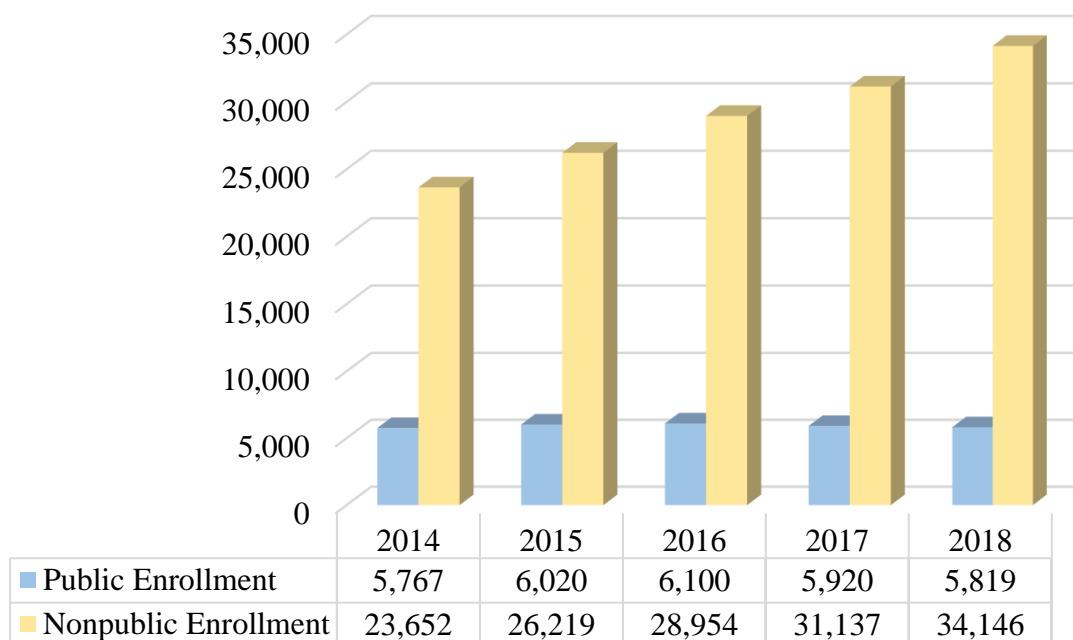
Fiscal Year	2014	2015	2016	2017	2018
Fund Balance, Beginning Year	\$ 2,167,636	\$ (5,966,483)	\$ (2,952,396)	\$ (3,791,814)	\$ (3,503,104)
Revenues	\$ 113,025,485	\$ 126,284,307	\$ 130,347,099	\$ 144,250,101	\$ 155,075,239
Expenditures	\$ 120,407,030	\$ 123,299,894	\$ 135,914,789	\$ 147,056,328	\$ 154,212,273
Excess (Deficiency) of Revenue Over (or Under) Expenditures	\$ (7,381,545)	\$ 2,984,413	\$ (5,567,690)	\$ (2,806,227)	\$ 862,966
Committed Year-End Encumbrances	\$ -	\$ -	\$ 2,124,294	\$ 476,248	\$ -
Assigned Year-End Encumbrances	\$ 100,462	\$ -	\$ 908,484	\$ 374,546	\$ 960,319
Unassigned Fund Balance, End Year	\$ (6,066,945)	\$ (2,952,396)	\$ (6,824,592)	\$ (4,353,898)	\$ (3,100,041)
Expenditures Exceeded Appropriations	\$ 11,009,756	\$ 8,577	\$ 7,656,307	\$ 396,399	\$ -
Transportation and Tuition	\$ 44,449,656	\$ 50,064,795	\$ 54,480,706	\$ 56,238,474	\$ 63,057,499

* The fund balance at the beginning of each fiscal year is equivalent to the sum of the prior fiscal year-end unassigned fund balance and encumbrances.

Disparity of Public and Nonpublic Student Enrollment

There was a significant and increasing disparity between the number of public and nonpublic students enrolled in the district. From fiscal years 2014 through 2018, public student enrollment averaged 5,925 students at eight schools, whereas nonpublic student enrollment averaged 28,822 students at 110 schools. The average growth of public student enrollment was 13 students per year, and the average growth of nonpublic student enrollment was 2,624 students per year.

Public and Nonpublic Student Enrollment by Fiscal Year



Overall, public student enrollment increased 52 students (1 percent), and nonpublic student enrollment increased 10,494 students (44 percent). The district receives state aid based on the public student enrollment. This puts a substantial strain on district finances because of the statutory requirements to provide mandated transportation to both public and nonpublic students, as well as tuition for special education students sent out of district to in-state approved private schools for students with disabilities.

Transportation and Tuition

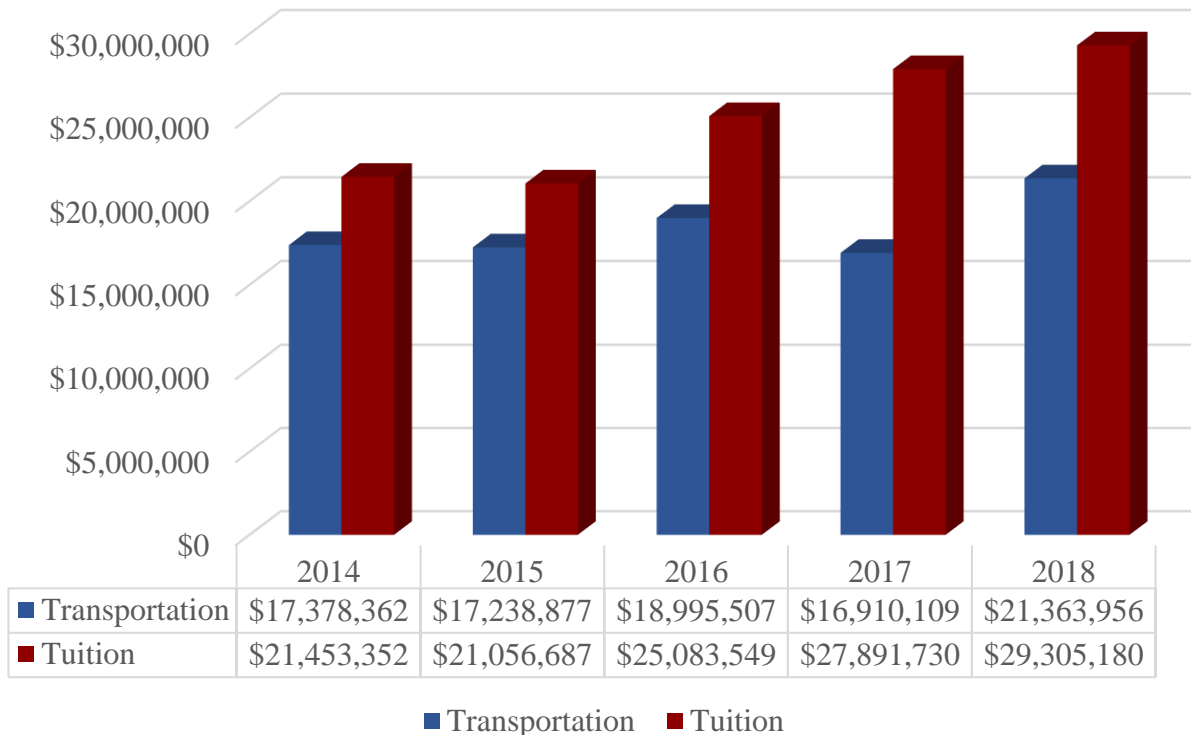
Pursuant to N.J.A.C. 6A:27, a district shall provide mandated transportation to public and nonpublic students who reside remote from their assigned school of attendance. The district incurred significant and escalating expenditures for transportation, paying a total of \$126.5 million from fiscal years 2014 through 2018. Of this amount, \$91.9 million (73 percent) was paid for mandated nonpublic students sent to nonpublic schools. The average annual transportation cost paid for these students was \$18.4 million, with an overall increase of \$4.0 million (23

percent). The average annual number of nonpublic students transported to nonpublic schools during this period was 27,153, with an average annual transportation cost of \$678 per student.

In addition, pursuant to N.J.A.C. 6A:14, a district shall pay tuition for all special education programs and required services after receiving individual student placement approval. For students placed in in-state approved private schools for students with disabilities, the district shall use tuition contracts. The district incurred significant and escalating expenditures for tuition, paying a total of \$141.8 million from fiscal years 2014 through 2018. Of this amount, \$124.8 million (88 percent) was paid for special education students sent out of district to in-state approved private schools for students with disabilities. The average annual tuition for these students was \$25.0 million, with an overall increase of \$7.9 million (37 percent). The average annual enrollment for students placed in in-state approved private schools for students with disabilities during this period was 309 students, with an average annual tuition rate of \$80,906.

The chart below depicts the trend of mandated transportation costs for nonpublic students sent to nonpublic schools and tuition for special education students sent out of district to in-state approved private schools for students with disabilities.

Transportation and Tuition Costs by Fiscal Year



Fiscal Year 2018 General Fund Budgetary Deficit

The district reported a \$3,100,041 deficit in the general fund unassigned fund balance despite the receipt of an \$8.5 million loan.

On May 7, 2017, in preparation of the original fiscal year 2018 budget, the district projected a \$14,727,288 deficit comprised of increases in expenditures, new expenditures, and decreases in revenue from the prior fiscal year, as summarized in the following table.

Category	Amount
Health Benefits	\$ 2,821,605
Salaries	2,561,333
Revenue Decrease	2,262,711
Charter School Payment	2,128,493
Vendor Payments Nonpublic Transportation	1,895,728
DOE Loan Repayment	1,099,531
Increase to School Budgets Title 1 Reduction	735,045
Transportation Not Including Salaries	686,793
Tuition and Other	536,049
Total Deficit	\$ 14,727,288

On May 9, 2017, the DOE issued a memorandum that projected an even larger deficit of \$16,487,909. To help reduce this amount, the district collaborated with the DOE and the Ocean County Office of Education to make budgetary reductions that would not impact the district's ability to provide a thorough and efficient (T&E) education. Based on those budgetary reductions, as well as from the deferment of loan and penalty repayments and a health insurance tax levy adjustment that would have been lost because of staff layoffs, the projected deficit was reduced to \$10,078,349, as summarized in the following table.

Category	Amount
Projected Budget Deficit	\$ 16,487,909
Items Not Required for T&E Education	(3,463,023)
Deferment of Loan and Penalty Repayments	(2,024,327)
Health Insurance Tax Levy Adjustment	(922,210)
Adjusted Deficit	\$ 10,078,349

On May 10, 2017, the district's superintendent requested a loan of \$10.0 million to be recorded as revenue to help balance the budget. The request cited the district's significant tuition and transportation costs associated with the large, nonpublic student population. The district ultimately received a loan of \$8.5 million. Despite the receipt of the loan, the district ended fiscal year 2018 with a deficit of \$3.1 million in the general fund unassigned fund balance, as summarized in the table below.

**Lakewood Township School District
General Fund
Budgetary Comparison Schedule
For the Fiscal Year Ended in June 30, 2018**

Actual Revenue	\$ 155,075,239
<i>less</i> Actual Expenditures	154,212,273
Excess Revenues over Expenditures	862,966
<i>add</i> Other Financing Sources	500,416
Excess Revenues Over Expenditures and Other Financing Sources	\$ 1,363,382
Beginning Fund Balance	\$ (3,503,104)
<i>add</i> Excess Revenues Over Expenditures and Other Financing Sources	1,363,382
Ending Fund Balance	(2,139,722)
<i>less</i> Year-End Encumbrances	960,319
Unassigned Fund Balance	\$ (3,100,041)

Additional Factors that Contributed to the Fiscal Year 2018 Deficit

The following additional factors were identified by us that contributed to the deficit in the general fund unassigned fund balance: budgetary controls and over-expenditure of funds; increased expenditures from the prior fiscal year; and a new expenditure not incurred in prior fiscal years.

Budgetary Controls and Over-Expenditure of Funds

Pursuant to N.J.A.C. 6A:23A-16.10, a district board of education shall only approve an expenditure that, when added to the total of existing expenditures, does not exceed the amount appropriated by the district board of education in the applicable line item account. Furthermore, the business administrator or board secretary must certify at monthly board meetings that no budgetary line item account has obligations and payments that, in total, exceed the amount appropriated by the district and that the financial accounts have been reconciled and are in balance. Based on our review of board minutes and budget reports from fiscal year 2018, we identified four months and two line item accounts where this certification did not occur, as summarized below.

Line Item Account	January	February	March	June
Tuition expenditures	\$ (2,915,774)	\$ (2,704,312)	\$ (2,710,058)	\$ (618,618)
Transportation	(1,245,754)	(1,635,792)	(1,767,438)	(1,724,306)
Total Over-Expended	\$ (4,161,528)	\$ (4,340,104)	\$ (4,477,496)	\$ (2,342,924)

Increased Expenditures from the Prior Fiscal Year

From fiscal year 2017 to fiscal year 2018, there were 92 line item accounts that increased a total of \$18.0 million. A summary of the top 10 line item accounts with the most significant increases from the prior fiscal year, totaling \$13.8 million, is presented in the following table.

Line Item Account	FY 17	FY 18	Increase
Transportation Services Paid to Vendor	\$ 16,910,109	\$ 21,363,956	\$ 4,453,847
Health Benefits	16,851,980	19,051,383	2,199,403
Pension Contributions	3,339,370	4,823,869	1,484,499
Tuition to Private Schools	27,891,730	29,305,180	1,413,450
Tuition – Other	981,683	2,178,736	1,197,053
Transportation Services – Special Education	942,000	1,753,020	811,020
Transportation Services – Salaries	-	697,986	697,986
Resource Room – Salaries of Teachers	2,163,545	2,821,938	658,393
Capital Outlay – Assets Acquired on Lease	-	493,297	493,297
Professional Education Services	1,417,989	1,831,959	413,970
Total	\$ 70,498,406	\$ 84,321,324	\$ 13,822,918

New Expenditure Not Incurred in Prior Fiscal Years

Pursuant to N.J.S.A. 18A:36, a district shall pay directly to a charter school for each student enrolled in the charter school who resides in the district an amount equal to 90 percent of the sum of the budget year equalization aid per pupil, the security categorical aid attributable to each student, and a percentage of special education categorical aid equal to the percentage of the district’s special education students enrolled in the charter school. The district paid \$2,118,057 for approximately 160 students enrolled in a new charter school, which opened in September 2017.

Recommendation

We recommend, with consideration of the aforementioned circumstances, the district develop and operate within an approved balanced budget without the reliance of loans.

Legislative action may be required to address the cost to provide mandated transportation for nonpublic students sent to nonpublic schools, as well as tuition for special education students sent out of district to in-state approved private schools for students with disabilities.



Observations

Efficiency Standards for Administrative & Non-Instructional Expenditures

Pursuant to N.J.A.C. 6A:23A-9.3, efficiency standards and the Taxpayer’s Guide to Education Spending (TGES) shall be considered in determining whether a district has implemented all potential administrative efficiencies and/or eliminated all excessive non-instructional costs. The TGES compares all dollars spent on the public student population without taking into consideration the nonpublic student population. In fiscal year 2018, the district had not implemented all potential administrative efficiencies and/or eliminated all excessive non-instructional costs. We identified the following areas where the district did not have efficient administrative and non-instructional costs.

- Support services cost per pupil equal to or less than the state median
- Legal services cost per pupil equal to or less than the state average
- Transportation efficiency rating equal to or more than 120 percent

According to the TGES, the district’s support services cost per pupil was \$3,125, while the state median was \$2,368. This was \$757 per pupil, or 32 percent, above the state median. The district spent a total of \$17,549,722 on support services, while the state median was \$13,298,477. This was \$4,251,245, or 32 percent, above the state median.

According to the TGES, the district’s legal services cost per pupil was \$135, while the state average was \$43. This was \$92 per pupil, or 214 percent, above the state average. The district spent a total of \$758,148 on legal services, while the state average was \$241,484. This was \$516,664, or 214 percent, above the state average.

The district’s transportation efficiency rating, which is calculated by dividing student ridership by vehicle capacity, was 88 percent, while the state standard was 120 percent. This resulted in a variance of 32 percent below the standard level of efficiency for vehicle capacity.

If the district’s expenditures were in line with the TGES standards, these administrative and non-instructional efficiencies could have saved the district as much as \$4,767,909, as summarized in the table below.

Administrative and Non-Instructional Expenditure	Potential Savings
Support Services	\$ 4,251,245
Legal Services	516,664
Total	\$ 4,767,909

Subsequent Loans

Fiscal Year 2019

For the original budget, the district identified a \$28.2 million deficit, and the district received a loan of \$28,182,090.

Fiscal Year 2020

For the original budget, the district identified a \$36.0 million deficit, and the district received a loan of \$36,033,862.

Fiscal Year 2021

For the original budget, the district identified a \$54.5 million deficit, and the district received a loan of \$54,541,711.

Fiscal Year 2022

For the original budget, the district identified a \$70.7 million deficit. The district initially requested a loan of \$70,716,798. However, this amount was subsequently reduced to \$0 based on one-time allocations of \$156.3 million from the following federal funds: American Rescue Plan and Secondary School Emergency Relief (ARP ESSER); and Elementary and Secondary School Emergency Relief (ESSER II).

Significant Loans Required to Balance Budget Deficits

From fiscal years 2015 through 2021, the district received significant loans and has become reliant on the receipt of these loans to balance its budgets. During this period, the district received \$137.4 million in loans and had only repaid \$12.4 million. The table below depicts the loans received and repayments made.

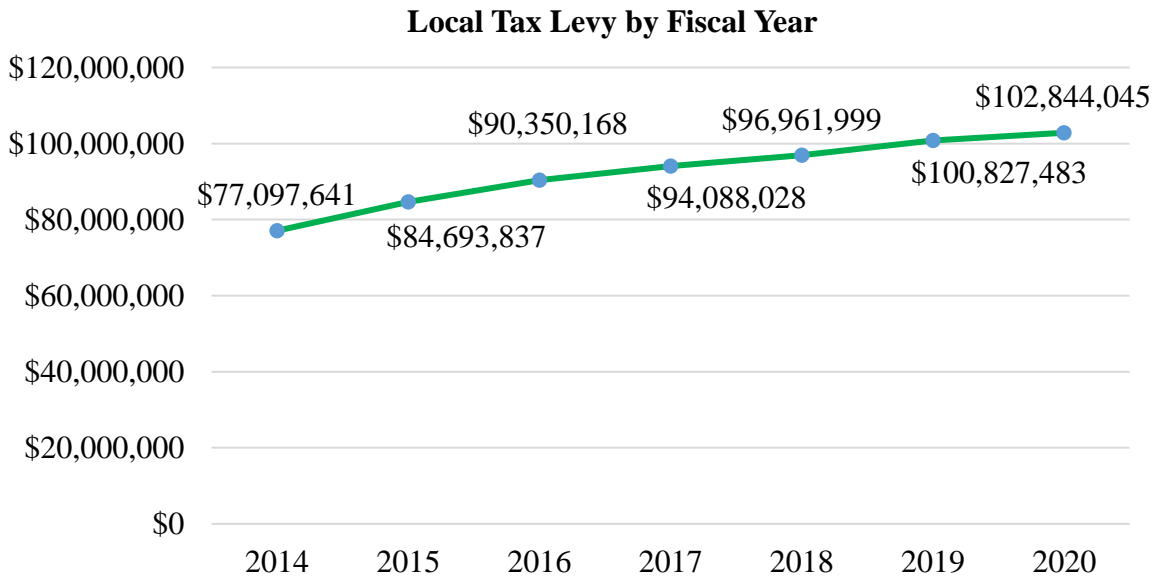
Fiscal Year	Loan Amount	Paid 2016	Paid 2017	Paid 2018	Paid 2019	Paid 2020	Paid 2021	Outstanding Balance
2015	\$ 4,500,000	\$ 450,000	\$ 450,000	-	\$ 450,000	-	\$ 630,000	\$ 2,520,000
2017	5,640,183	-	564,018	-	564,018	-	752,025	3,760,122
2018	8,522,678	-	-	-	852,268	-	958,801	6,711,609
2019	28,182,090	-	-	-	-	-	3,131,343	25,050,747
2020	36,033,862	-	-	-	-	-	3,603,386	32,430,476
2021	54,541,711	-	-	-	-	-	-	54,541,711
Total	\$ 137,420,524	\$ 450,000	\$ 1,014,018	\$ -	\$ 1,866,286	\$ -	\$ 9,075,555	\$ 125,014,665

*The district did not take a loan in 2016.

The terms of repayment for each loan is ten years, repaid through automatic reductions in state aid provided in subsequent years. From fiscal years 2022 through 2031, which is the last fiscal year of repayment for the loan received in fiscal year 2021, the district anticipates repayments of \$125.0 million, or an average of \$12.5 million each fiscal year, assuming no additional loans are taken.

Limited Growth in Local Revenue from Tax Levy

Pursuant to N.J.S.A. 18A:7F-38, a district shall not adopt a budget with an increase in its adjusted tax levy that exceeds the sum of the pre-budget year adjusted tax levy multiplied by 2.0 percent and adjustments for increases in enrollment, health care costs, amounts for certain normal and accrued liability and pension contributions, and other external factors. This law caps the district’s ability to generate a substantial amount of additional revenue from the local tax levy each fiscal year, which hinders its ability to reduce budget deficits. From fiscal year 2014 to 2020, revenue from the local tax levy increased \$25.7 million (33 percent), with an average annual increase of \$4.3 million (five percent). The following chart depicts the growth in the local tax levy during this period.



The DOE provides an estimate of a district’s local fair share based on equalized valuation and district income. The table below depicts the difference between the local tax levy per the district and the local fair share per the DOE.

Fiscal Year	Local Levy per District	Local Fair Share per DOE	Difference
2018	\$ 96,961,999	\$ 102,034,106	\$ 5,072,107
2019	100,827,483	111,534,172	10,706,689
2020	102,844,045	123,904,450	21,060,405
Total	\$ 300,633,527	\$ 337,472,728	\$ 36,839,201

From fiscal year 2018 to 2020, the district could have generated an additional \$36.8 million had it been able to raise the local tax levy. This could have helped provide additional revenue to the district to eliminate the budget deficits, as well as lower the amount of loans required to balance the budgets.

Lack of Voter Authorization to Exceed Tax Levy Cap

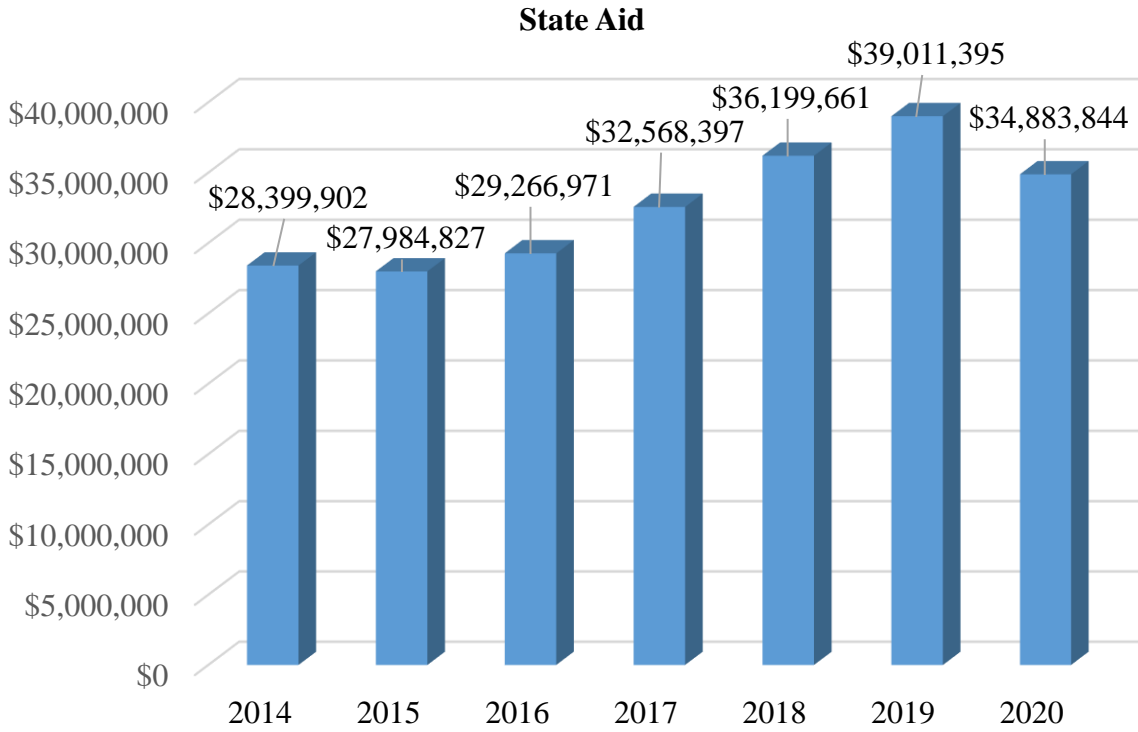
Pursuant to N.J.A.C. 6A:23A-12.1, a district board of education may put to voters the matter of exceeding the tax levy cap through proposals. These proposals shall be approved if a majority of the people voting at the school election votes in the affirmative. All proposals to increase the tax levy shall include statements identifying the purposes for which the proposed funds will be used and whether approval will affect only the current year or result in a permanent increase in the tax levy. Any rejection by voters of these proposals shall be final and conclusive with no appeal.

In fiscal years 2016 through 2020, the district considered 13 referendums totaling \$22.3 million. All of these referendums were either rejected or did not appear on the election ballots. In fiscal year 2016, there was a special election to decide whether or not to raise an additional \$6.0 million in taxes to be used exclusively for transportation services. Of the 7,694 ballots cast, 7,586 (99 percent) voted against. If the district was able to exceed the tax levy cap without voter approval, it could help generate additional revenue to reduce budget deficits and loan needs.

Limited Growth in Revenue From State Aid

State aid is provided to the district based on its public student enrollment and does not account for its nonpublic student enrollment. This has put a substantial strain on the district’s finances because of the statutory requirements to provide mandated transportation of nonpublic students sent to nonpublic schools and tuition for special education students sent out of district to in-state approved private schools for students with disabilities.

In fiscal years 2014 through 2020, the district’s state aid, without the inclusion of loans and non-budgeted amounts, increased by a total of \$6.5 million (23 percent), with an average annual increase of \$1.1 million (4 percent). From fiscal year 2019 to 2020, state aid decreased by \$4.1 million. The chart below depicts the trend of state aid without the inclusion of loans and non-budgeted amounts received during this period.



Auditor's Note Regarding the District's Response

The policy of the New Jersey Office of the State Auditor is to include the auditee's response in its entirety. Pages 2-10 and Exhibit A of the district's response presents their own information and was not subject to audit procedures conducted by our office, and we, therefore, do not provide any assurance on it. The information is the district's responsibility, and its inclusion herein should not be considered as an endorsement or position taken by our office.



Lakewood Board of Education

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Laura A. Winters, Superintendent of Schools

May 10, 2022

Office of Legislative Services

Office of the State Auditor

Attention: Brian Klingele

125 South Warren Street

Trenton, New Jersey 08625

Re: **Lakewood School District**

Dear Mr. Klingele:

The Lakewood School District is in receipt of the “draft copy” of the Audit Report covering the period of July 1, 2017 to June 30, 2018 enclosed with your correspondence of April 20, 2022.

Per your aforementioned correspondence the Lakewood School District submits the following comments:

1. The District continues “to develop and operate within an approved balanced budget” (Page 9 of Audit), albeit, with necessary State loans as determined by the Departments of Treasury and Education.
2. The District agrees and appreciates the recognition by the Audit that “Legislative action may be required to address the cost to provide mandated transportation for nonpublic students sent to nonpublic schools, as well as tuition for special education students sent out of district to in-state approved private schools for students with disabilities.”

The aforementioned two (2) recommendations are the *only* recommendations within the Audit and the District *continues* to agree and embrace same.

As the District, the Township, taxpayers, and others have stated over more than twenty (20) plus years, the unique, complex, and diverse population of our schools (public, private, and non-public) requires a legislative “fix”, something that is not unheard of, and, possibly akin to the specialized legislation that was created for the Atlantic City Board of Education several years ago wherein, in part, additional funding – NOT a loan. [Please see **EXHIBIT “A”** attached



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hereto entitled “The Lakewood School District compared to the Atlantic City School District” dated May 22, 2017, clearly demonstrating that in reviewing per capita income, poverty levels, demographics, state aid, etc., Lakewood should be strongly considered for additional funding – **NOT loans.**]

As the Audit indicates, *in part*, Lakewood’s school age population is one of the fastest growing in New Jersey (if not, in fact, the fastest) with numerous mandated services required to be provided, albeit, not fully funded as the non-public ever growing population while entitled to services does not receive adequate funding.

In addition, please note the following facts that the Lakewood School District presents based on district data:

A. Population Growth of Lakewood

2000 Census Population Growth	2010 Census Population Growth	2020 Census Population Growth
60,352	92,843	107,439

*Lakewood is the fastest growing town in Ocean County, and the fifth most populated town in New Jersey.

B. Lakewood Public School Demographics (as of April 15, 2022)

White	Black	Hispanic	Other
5%	6%	87%	2%

C. Lakewood School District Free & Reduced Breakfast/Lunch

100%

Community Eligibility Provision (CPI)



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- D. “Support Services” (*partial* listing) that are driven by the unique nature of out public school population, and, a concerted effort to provide a “T&E” (“Thorough and Efficient”) Education as well as a “FAPE” (“Free Appropriate Public Education”) to our students in the “LRE” (“Least Restrictive Environment”).
- E. With regard to **Transportation**, the District does not render any payment for any transportation that is not mandated by law, to wit, the District does not recognize nor pay for “courtesy bussing”.

However, as the chart below clearly indicates due to the sheer number of non-public school students, who by law must receiving busing and/or Aid in Lieu, payments the local school Budget must absorb millions of dollars per year as the associated costs are not fully reimbursed via State aide.

District	County	Mandated Students	Aid In Lieu Students	Mandated Cost @ \$710	Aid In Lieu Cost @ \$1,000
Teaneck	Bergen	1,811	326	\$ 1,285,810	\$ 326,000
Englewood	Bergen	346	202	\$ 245,660	\$ 202,000
Howell	Monmouth	2	226	\$ 1,420	\$ 226,000
Lakewood	Ocean	23,135	564	\$ 16,425,850	\$ 564,000
Brick	Ocean	391	97	\$ 277,610	\$ 97,000
Jackson	Ocean	668	1,278	\$ 474,280	\$ 1,278,000
Toms River	Ocean	441	1,502	\$ 313,110	\$ 1,502,000

Source - NJDOE October 2020 DRTRS Summary

www.nj.gov/education/finance/fp/audit/2021/NewFiles/October%202020%20DRTRS%20Summary.pdf



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Nevertheless, despite transporting more than 40,000 (forty thousand) students per day the District has vastly increased its “Efficiency Ratings” (as determined by the New Jersey Department of Education) – see below

School Year	Efficiency Rating
2012	1.59
2013	1.44
2014	1.50
2015	1.53
2016	1.51
2017	0.86
2018	0.88
2019	1.48
2020	2.052

Every district has a yearly efficiency rating score based on the DRTS.

<https://www.nj.gov/education/finance/transportation/efficiency/calc.pdf>





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- F. The ever increasing non-public population is demonstrated below with no indication that said substantial increase of students will not continue for the years to come.

	Number of Students Approximately Attending Public Schools	Number of Reported Students on the DRTRS	Increase of Students
2015-2016	5,800	19,160	
2017-2018	5,700	26,125	 + 6,965
2021-2022	5,000	41,582	 +22,422

Source: DRTRS

The Lakewood School District appreciates the opportunity and challenges in providing the mandated services herein, the “inequities” that the Audit clearly demonstrate will only increase unless and until an appropriate funding stream is established.

- G. In a concerted effort to provide for our ever growing special education population with “FAPE” (“Free Appropriate Public Education”) in the “LRE” (“Least Restrictive Environment”) the District has retained the services of numerous “support staff” (see above) to meet these children’s *individualized* needs within the District.

Please, respectfully, note that the number of *in-district* special education students has **increased** by sixty-four percent (64%) from the 2011-2012 school year to the 2021-2022 school year as of April 15, 2022.



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H. On a *positive note*, the District’s **graduation rate** has **increased** by twelve percent (12%) between the period of 2012-2013 to 2020-2021 due to the strenuous efforts of the Administration, the Board, staff, and our professionals.

2012-2013	2017-2018	2020-2021
71.20%	81.3%	83.2%

Source: NJSMART

I. Moreover, the District’s public school population presents with many unique challenges that are embraced and are privileged to serve. Notably, please see the charting below which indicates the number of English Language Learners (“ELL”), the amount of Bi-Lingual services provided, and the *ever increasing* need, and, associated expenditures with regard to same.

J. On another *positive note*, the District’s Business Office has shown vast improvement over the last several years, including, but not limited to, positive and ever increasing Q-SAC scores, and, with regard to the District’s Annual Audit wherein the number of exceptions/findings have been reduced from thirty-one (31) in 2013-2014 to zero (0) in 2020-2021.

Year	Number of Audit Findings
2013-2014	31
2014-2015	16
2020-2021	0



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K. With regard to professional services, *as recognized by the Audit Team during the Exit Conference*, while the “TGES” (“Taxpayer Grade to Education Spending”) **only** considers public school students in arriving at the per student costs, said calculation in Lakewood’s case *fails* to recognize the tens of thousands of non-public students and the associated legal issues that arise with regard to the mandated services on a daily basis such as transportation, Federal/State grants, and the legality of the uses for same in a proactive manner that, hopefully, will present Audit findings that in the past have cost the District millions of dollars, special education, etc.

Specifically, as the Audit itself states:

“The TGES compares all dollars spent on the public school population without taking into consideration the non-public student population”

For the 2017-2018 school year, there were approximately **26,125 (twenty-six thousand one hundred and twenty-five)** students reported on the DRTS that would lead to, for example, a per pupil cost of \$29.00 (twenty-nine dollars) for professional services, as opposed to \$135.00 (one hundred thirty-five dollars).



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- L. In addition to what is listed above, with regard to special education, the District proudly services children with unique, and, often unheard of diagnoses and conditions that require specialized support services. Some of the unique diagnoses are, in part, as follows:

16p Deletion Syndrome	5-methyltetrahydrofolate deficiency	Achondroplasia type IV
Aicardi-Goutieres Syndrome	Angelman's Syndrome	Ankylosing spondylitis
Anoxic Encephalopathy	Arthrogyria	Brown Syndrome
Centro Nuclear Myopathy	Chiari Malformation	Chromosomal Deletion (3p21.31)
Chromosome 19p13.3 Deletion Syndrome	Cobalamin C Deficiency	Col6a3 deficiency
Corpus Callosum Agenesis	Cri-Du-Chat Syndrome	Velo Pharyngeal Insufficiency
DeNovo BICD2 gene mutation	DiGeorge Syndrome	Distal Chromosome 18Q deletion
Dravet Syndrome	Duane Syndrome	Duchenne Muscular Dystrophy
Dystonic extrapyramidal	Emanuel Syndrome	Estropia
Factor XI deficiency	Familial dysautonomia	Fragile X Syndrome
Hirschsprung's disease	Holoprosencephaly (HPE)	Hypoxic Ischemic Encephalopathy
Langerhan Cell Histiocytosis	Laryngomalacia,	LCA-Leber's Congenital Amareusis
Legg Calves Perthes Disease	Leigh Syndrome	Lennox Gestaat Syndrome
Loeys-Dietz Syndrome	Microdeletion of the 17th chromosome	Missense alteration in the NXF5 gene
Moebius-Poland Syndrome	Mutation of the BRWD3 gene	Nager Syndrome
Neuronal Migration Disorder	Nissen Fundoplication	Nystagmus
Oromandibular-Limb Hypogenesis Spectrum Disorder	Pallister Killian Syndrome	PANDAS
PHACE syndrome	Phelan-McDermid Syndrome	Polymicrogyria
Prader Willi syndrome	Rett Syndrome	Retinopathy of Prematurity (ROP)
Silver-Russell syndrome	Skeletal Dysplasia	SMAD 2 Related Disorder
Sotos Syndrome	Sturge-Weber Syndrome	STXBPI encephalopathy
Trisomy 13	Trisomy 18	Trisomy 10Q, genetic disorder
VACTERL	West Syndrome	Williams syndrome
Wolf Parkinson's White Disorder	Tetralogy of Fallot with absent pulmonary valve	



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In canvassing Districts in Ocean and Monmouth Counties it is “safe” to say that there is no other District that has the opportunity to provide mandated services to such children. However, there, of course, is an associated cost that is not fully recognized by State funding channels.

One example is the need for highly qualified and specifically trained therapists that, unfortunately, are hard to “find”, and, when identified the associated costs are not fully recognized by current State funding.

The chart below clearly indicates the increase in specialized therapists that are required for in-district special education students:

	2011-2012	2017-2018	2021-2022
Speech Therapists	12 therapists	26 therapists	29 therapists
Occupational Therapists	6 therapists	12 therapists	11 therapists
Physical Therapists	3 therapists	8 therapists	9 therapists



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In conclusion, the Lakewood School District, again, **agrees** with the “Recommendations” of the Audit as delineated on Page 9 of the “draft” Audit report.

Respectfully,

Laura A. Winters

,

Laura A. Winters
Superintendent of Schools

Attachment

cc:

Kevin Campbell, Assistant Business Administrator
Robert Finger, Coordinator of Fiscal Services
Ron Fisher, Lead State Monitor
Patricia Lagarenne, Assistant State Monitor
Charles Muller, Ocean County Superintendent
Members of the Board of Education
General Counsel Michael I. Inzelbuch, Esquire

Exhibit A

The Lakewood School District *compared to the* Atlantic City School District

*Lakewood Public Schools
is no less “needy” than
Atlantic City Public Schools that
receives millions of additional
State dollars.*



May 22, 2017



Facts:

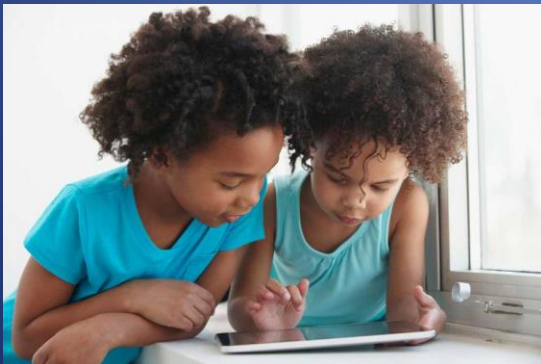
New Jersey has not followed the statutory formula for funding school budgets since its first year in law in 2008-2009, and was cut in 2010-2011 (In its first year, 2008-2009, it was statutorily funded, not fully funded.)



Currently, there is no part of the school funding formula that allows the flexibility to provide additional aid to school districts in distress or that are unique.

Fact:

The Lakewood School District is unlike any school district in New Jersey, with 6,100 Public School students, and over 30,000 Non-Public School students, for which the School Funding Formula does not work.



Fact:

The Atlantic City School District received additional funds, *not* a loan, in the 2016-2017 school year through Senate Bill A3983/S-2574, which was approved in June of 2015.

In the 2017-2018, State of New Jersey Budget Summary (Page 41), the Atlantic City School District is slated to receive **\$32 million dollars** in discretionary school aid, called “Commercial Valuation Stabilization Aid.”

Fact:

Lakewood needs
discretionary aid, not
more loans.



PER CAPITA INCOME

(2015 dollars)

Lakewood Township's Per Capita \$15,124

Atlantic City's Per Capita \$18,162

New Jersey State's Per Capita \$36,582



(www.quickfacts.census.gov)

MEDIAN HOUSEHOLD INCOME

(2015 Dollars)

- **Lakewood Township's** Median Household Income – \$40,983
- **Atlantic City's** Median Household Income – \$25,737
- **New Jersey State's** Median Household Income – \$72,093
- **Lakewood's Median Household** Income is \$31,113 **BELOW** the State Median!



(www.quickfacts.census.gov)

POVERTY LEVEL

(2015 Dollars)

- Lakewood has the **highest** poverty level in Ocean County – 32.1%
- Atlantic City – 36.9%
- State Poverty Level – 10.8%

Lakewood & Atlantic City vs. Abbott Districts

Per Capita Income & Percent of Population Living below the Poverty Level

(2015 Dollars)

School Districts	Per Capita Income	Percent of the Population Living Below the Poverty Level
<u>Lakewood</u>	\$15,124	32.1%
<u>Atlantic City</u>	\$18,162	36.9%
Asbury Park	\$23,761	31.9%
Neptune	\$32,737	10.6%
New Brunswick	\$14,407	34.7%
Trenton	\$16,914	28.3%
Elizabeth	\$18,826	19.0%
Perth Amboy	\$19,218	22.8%
Vineland	\$24,361	16.9%
Long Branch	\$29,446	18.7%
Jersey City	\$33,426	19.3%
Hoboken	\$72,864	10.8%

Demographics of Lakewood Public Schools Compared to Atlantic City Public Schools

The Lakewood School District	Percentage	Atlantic City School District	Percentage
Hispanic	85%	Hispanic	40%
African American	9%	African American	36%
White	5%	White	6%
Other	1%	Other	18%

Graduation Rate of Lakewood Public Schools Compared to Atlantic City Public Schools “2016”

LAKESWOOD 2016	ATLANTIC CITY 2016
75.1%	76.1%

Free Lunch/Breakfast Program

- All students in the Lakewood School District receive free lunch and breakfast through the Community Eligibility Program (CEP).
- According to the National School Lunch Program, 70% of the students in the Atlantic City School District receive Free/Reduced Lunch/Breakfast.

NEW JERSEY STATE AID - LAKEWOOD

“2011-2017”

School Year	Equalization Aid	Transportation Aid	Special Education Aid	Security Aid	Professional Learning Comm.	PARCC Readiness Aid	Per Pupil Growth Aid	Total General Fund State Aid	Extra-ordinary Aid
2011-2012	14,793,805	3,043,050	2,748,847	218,913	N/A	N/A	N/A	20,804,615	3,668,596
2012-2013	14,972,074	3,865,747	2,904,408	2,161,835	N/A	N/A	N/A	23,878,294	2,972,875
2013-2014	15,263,034	3,934,658	2,975,869	2,161,835	N/A	N/A	N/A	24,335,396	3,610,389
2014-2015	15,263,034	3,934,658	2,975,869	2,161,835	N/A	58,370	58,370	24,452,136	3,147,306
2015-2016	15,263,034	3,934,658	2,975,869	2,161,835	N/A	58,370	58,370	24,452,136	4,162,366
2016-2017	15,070,904	4,199,793	3,053,082	2,186,868	63,220	58,370	58,370	24,690,607	5,200,000

Due to the fact that the Lakewood School District was *in a deficit*, State Aid Advances (i.e. loans) were obtained in an effort to maintain a “Thorough and Efficient” Education.

STATE AID ADVANCES RECEIVED:

- 2015-2016 - \$4.5 Million Dollars
- 2016-2017 – \$5.6 Million Dollars
- 2017-2018 – \$8.5 Million Dollars

Lakewood Township

- The Municipality of Lakewood provides \$1 Million Dollars to the Lakewood School District, in order to bus public school *courtesy students*. No monies are paid for nonpublic courtesy students.



What Makes Lakewood Unique?



Population Growth

- 2000 Census

- Lakewood

- Population: 60,352

- 2010 Census

- Lakewood

- Population: 92,843

- 54% Growth

- Lakewood's population increased by more than 32,000 between 2000 and 2010
 - Lakewood is the fastest growing town in Ocean County
 - Prediction: Population of 230,000 by the Year 2030 (Asbury Park Press/Smart Growth Plan)

Limited English Proficient Students (LEP)

Year	Number of Students
2012-2013	1160
2013-2014	1164
2014-2015	2014
2015-2016	1693
2016-2017	1830

(Realtime Data)

Number of Lakewood Students

	Number of Students Attending Public Schools •*Does not include •Out-of-District Students	Number of Non-Public Schools Students Receiving Transportation
2009-2010 (With Evening High School)	5,215*	16,443 **
2010-2011 (Without Evening High School, as this was cancelled in a cost cutting measure)	5,272*	17,900 **
2011-2012	5,566	18,966**
2012-2013	5,424+	20,960**
2013-2014	5,766*	22,622**
2014-2015	6,020*	24,483**
2015-2016	6,100*	26,588**
2016-2017	6,103+	(LSTA)

** Versatrans includes schools located within Lakewood and out-of-district
*NJSMART October 15th Submission
(2011 NJSMART report not available to public yet)

For Number of Out-of-District Students- See slide 21

Transportation Budget 2016-2017-
\$24,582,735

Projected Transportation Budget 2017-2018
\$27,387,442

According to the 2010 Census, the percentage (%) of the population that is under 5 years old, under 18 years old and 65 years of age and older.

	Percentage of Population Under 5 Years Old	Percentage of Population Under 18 Years Old	Percentage of Population 65 Years of Age and Older
Lakewood	19.5%	48.4%	4.3%
Ocean County	6.7%	23.4%	21.0%
New Jersey	6.2%	23.5%	13.5%
Brick	5.0%	20.7%	17.9%
Toms River	5.0%	21.7%	16.7%
Howell	5.7%	26.3%	10.0%
Jackson	5.4%	24.7%	14.8%
Asbury Park	7.7%	23.8%	10.3%
Long Branch	7.2%	21.7%	11.3%
Neptune	5.2%	20.6%	16.5%

**SPECIAL EDUCATION STUDENTS
IN-DISTRICT
VS
OUT-OF-DISTRCT**

YEAR	NUMBER OF IN-DISTRICT SPECIAL EDUCATION STUDENTS	NUMBER OF OUT-OF-DISTRICT SPECIAL EDUCATION STUDENTS	NUMBER OF TOTAL SPECIAL EDUCATION STUDENTS
2011-2012	811	206	1,017
2012-2013	819	245	1,064
2013-2014	838	275	1,113
2014-2015	849	295	1,144
2015-2016	876	369	1,245
2016-2017	908	346	1,254

Projected Special Education Costs 2017-2018 – \$32,626,550
IDEA Public Funds - \$1,600,000

Non-Public Chapter 192 & 193 Services

	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Comp. Ed. (Chapter 192)	7,647	8,813	10,741	11,754	10,557**	12,092**	14,361**	13,585* 19,335
ESL (Chapter 192)	99	135	421	425	354**	358**	222**	280*
Speech (Chapter 193)	2,607	2,860	2,964	3,050	2,996**	2,630**	3,295**	3,153* 3,314
Supplemental Instruction (Chapter 193)	1,266	1,438	1,741	1,788	1,701**	1,701**	2,052**	2,295* 2,201
E & D (Chapter 193)	1,559	2,067	2,494	2,546	2,540**	2,500**	3,232**	3,415* 4,183
Transportation (Chapter 192)	\$418,599	?	\$843,403	\$1,044,850	\$413,952**	\$683,665**	\$720,596**	\$278,100* 492,945.13

* FIRST FUNDING STATEMENT BEFORE
ADDITIONAL FUNDING

NJDOE

** LAST FUNDING
STATEMENT AFTER
ADDITIONAL FUNDING



(The information contained herein is subject to final and further verification)