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STATE COMPTROLLER



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STATE OF NEW YORK  
**OFFICE OF THE STATE COMPTROLLER**

April 17, 2007

Dr. Charles T. Russo  
Superintendent of Schools and  
Members of the Board of Education  
East Moriches Union Free School District  
9 Adelaide Avenue  
East Moriches, NY 11940

Report Number B7-7-09

Dear Dr. Russo and Members of the Board of Education:

Pursuant to Chapter 33 of the Laws of 2002, the State Legislature authorized the East Moriches Union Free School District (District) to issue debt totaling \$2 million to liquidate the accumulated deficit in the District's general fund as of June 30, 2006. Chapter 33 requires the District's chief fiscal officer to submit the District's tentative budget to the State Comptroller within five days after its preparation. The State Comptroller must examine the tentative budget and make recommendations for any changes that are needed to bring the proposed budget into balance. Such recommendations are made after the examination into the estimates of revenues and expenditures of the District and prior to the approval of the budget.

Our office has recently completed an audit of the District's proposed budget for the 2007-2008 fiscal year. The objective of the audit was to provide an independent evaluation of the tentative budget. Our audit addressed the following questions related to the District's budget for the 2007-2008 fiscal year:

- Are the District's significant revenue and expenditure projections in the proposed budget reasonable?

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS) with the exception of reporting views of responsible officials, which were not solicited for this report due to the necessity of providing the District with this time-sensitive information. However, the results of this audit have been discussed with District officials and their comments have been considered in preparing this report. GAGAS requires that we plan and perform our audit to adequately assess the estimates in the tentative budget. Further, those standards require that we understand the internal control structure at the District and the

District's compliance with those laws, rules and regulations that are relevant to preparing estimates for the tentative budget.

To accomplish our objectives in this audit, we requested your tentative budget along with other pertinent information. We analyzed the composition of revenues and expenditures in order to determine if the revenue and expenditure estimates are reasonable and if the budget is structurally balanced so that recurring costs are financed with recurring revenues. It was not our intent and we do not offer comments on public policy decisions, such as, the type and level of services to be provided.

The tentative budget package for the fiscal year ended June 30, 2008, submitted for audit, consisted of the following:

- 2007-2008 Tentative Budget
- Supplementary Information

The tentative budget, as modified on March 23, 2007, is summarized as follows:

<b>Fund</b>	<b>Appropriations and Provisions for Other Uses</b>	<b>Real Property Taxes (RPT)</b>	<b>Estimated Revenues Other Than RPT</b>	<b>Appropriated Fund Balance</b>
General	\$22,491,691	\$15,112,250	\$6,929,711	\$450,000

The observations and recommendations resulting from our audit are, to a great extent, influenced by the quality and quantity of materials submitted, and the time between submission and budget adoption.

Based on the results of our audit, we do not find that significant revenue and expenditure projections in the tentative budget are reasonable. District officials have not provided sufficient documentation that the District will complete the 2006-07 fiscal year with a surplus fund balance to appropriate for 2007-08. In addition, they do not have a viable plan to address the \$1.2 of their accumulated deficit in excess of authorized financing. Our audit disclosed the following findings that should be reviewed by the Board of Education (Board) for appropriate action. Good management practices require that District officials take prompt action concerning our recommendations. We believe that prompt action by District officials will help to improve the District's financial condition.

### **General Fund Deficit**

The District had a general fund deficit of \$3,214,468 at June 30, 2006, which was approximately \$1.2 million more than the \$2 million in deficit financing authorized by the State Legislature. Although the \$2 million has been authorized and approved, the District has not issued the serial bonds yet. District officials informed us that they still intend to issue this debt. Chapter 33 of the Laws of 2002 requires the District to issue the bonds on or before June 30, 2007.

District officials report that they will address the unexpected \$1.2 million in fund deficit in two ways. First, officials decided to raise taxes above the amount needed to support the 2006-07 budget in order to eliminate a portion of the deficit. The District adopted a tax levy of \$14.5 million for the 2006-07 fiscal year, which was \$882,000 more than necessary to cover their adopted budget. The tax levy, adopted on October 25, 2006, kept the same tax rate which generated a surplus of real property tax revenues because of increased assessed values.

District officials plan to eliminate the remaining portion of the \$1.2 million deficit by using \$317,000 in surplus funds from completed capital projects. However, these funds are not legally available for this purpose. Unexpended proceeds of debt from capital projects may only be used to pay for debt service and not to reduce a general fund operating deficit. Therefore, the Board will have to develop an alternative plan to eliminate the remaining unexpected general fund deficit.

### **Appropriated Fund Balance**

In addition to eliminating a portion of the unexpected operating deficit from 2005-06, District officials are also projecting that the general fund will have a surplus of \$550,000 at June 30, 2007. However, District officials have not given us any explanation of how this surplus will be achieved. In addition, we noted that the District's budgeted tuition expenditures for the 2006-07 fiscal year are \$5,962,600. District officials project total expenditures to be \$6,735,637 for the 2006-07 fiscal year, approximately \$773,037 over-budget. Given this lack of supporting information, we cannot determine how District officials determined that a surplus of \$550,000 will occur.

The 2007-2008 proposed budget includes the appropriation of \$450,000 of fund balance to help finance 2007-08 operations. The practice of appropriating fund balance as a source of financing is used by many local governments as a means of reducing the amount of the tax levy. However, in order to avoid a budgetary deficit, the amount of fund balance appropriated must not exceed the actual amount of surplus fund balance available. Based on the issues noted above, there is no assurance that the District will have sufficient funds to appropriate in the 2007-2008 budget. In addition, even if this fund balance is available, we generally advise that excess fund balance be used to finance non-recurring expenses or to reduce outstanding debt. Using excess fund balance to finance ongoing costs can result in future budget gaps, since this funding source will not necessarily be available in subsequent years.

We recommend that District officials closely monitor the use of fund balance to ensure that action is taken, if necessary, to identify other funding sources that can be used if fund balance is no longer available to fund District operations.

We recommend that the Board reconsider appropriating fund balance in the 2007-2008 budget.

Pursuant to Chapter 33 of the Laws of 2002, the Board shall review the recommendations in this report and make adjustments to its proposed budget. The Board must explain in writing to our office and the Commissioner of Education any recommendations rejected.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, the Board should prepare a plan of action that addresses the recommendations in

this report and forward the plan to our office within ninety days. We encourage the Board to make this plan available for public review in the District Clerk's office. For guidance in preparing your plan of action and filing this report, please refer to the attached documents.

We request that you provide us with a copy of the adopted budget.

We hope that this information is useful as you adopt a budget for the school district. If you have any questions on the scope of our work, please feel free to contact Richard Rennard at (631) 952-6534.

Very truly yours,

Mark P. Pattison  
Deputy Comptroller  
Division of Local Government Services  
and Economic Development

#### Attachments

cc: Dr. George Chesterton, Business Official  
Patricia Prendergast, District Clerk  
Hon. Owen H. Johnson, Chair, Senate Finance Committee  
Hon. Herman D. Farrell, Jr., Chair, Assembly Ways and Means Committee  
Hon. Fred W. Thiele, Jr., NYS Assemblyman  
Hon. Kenneth LaValle, NYS Senator  
Paul E. Francis, Director, Division of Budget  
Richard P. Mills, Commissioner, NYS Education Department  
James Conway, Director, Office of Audit Services, NYS Education Department  
Richard Rennard, Chief Examiner, Office of the State Comptroller