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STATE COMPTROLLER



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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

April 10, 2007

Dr. Susan A. Agruso, Superintendent
And Members of the Board of Education
South Country Central School District
189 Dunton Avenue
East Patchogue, NY 11772-5598

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

Chapter 33 of the Laws of 2006 authorizes the South Country Central School District to issue debt totaling \$4,623,721 to liquidate the accumulated deficit in the District's general fund as of June 30, 2005. 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 prior to the approval of the budget.

Our office has recently completed an audit of the District's 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 question related to the District's budget for the 2007-2008 fiscal year:

- Are the significant revenue and expenditure projections in the District's tentative 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 District's management controls and 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. 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:

- Cover Letter
- 2007-2008 Proposed Budget
- Supplementary Information

The proposed budget submitted to our office is summarized as follows:

Fund	Appropriations and Provisions for Other Uses	Estimated Revenues	Appropriated Fund Balance	Real Property Taxes
General	\$95,843,025	\$53,627,904	0	\$42,215,121

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 the significant revenue and expenditure projections in the proposed budget to be reasonable.

Our audit disclosed the following findings which should be reviewed by the Board of Education (Board) for appropriate action. Good management practices require that Board officials take prompt action concerning our recommendations. We believe that prompt action by Board officials will help improve the District's financial condition.

General Fund Balance

The District had a general fund deficit of \$4,623,721 at June 30, 2005. On March 27, 2006 the State Legislature authorized the District to issue serial bonds for 10 years on or before June 30, 2007 to finance the deficit. After reviewing the District's audited financial statements for the fiscal year ended June 30, 2006, we noted that the District's general fund had an unreserved fund deficit of \$3.8 million. The deficit decreased by \$.8 million from the prior year due to a fiscal year 2005-06 operating surplus of \$500,000 and a prior period adjustment of \$300,000.

District officials informed us that the District does not intend to issue serial bonds prior to the June 30, 2007 deadline. Instead of the 10-year bonds, the District issued Bond Anticipation Notes (BANs) in the amount of \$4,623,721 to finance the deficit on January 18, 2007. District officials stated that the District plans to renew the BANs each year for five years (the maximum allowable by Law) until January 18, 2012. However, the proposed budget for the 2007-2008

fiscal year does not provide for any repayment of principal for the BANs; instead, it provides only for payment of the interest due at January 18, 2008 (\$172,000).

According to District officials, there is no provision in the 2007-08 budget for principal redemption because the District plans to use a projected general fund operating surplus at June 30, 2007 to redeem a portion of the BANs principal. However, the District is projecting an operating surplus of slightly more than \$500,000 at June 30, 2007. This projection is based on the expected significant reduction of expenditures for the remainder of the 2006-2007 fiscal year. If the projected expenditure reductions are not met, the operating surplus will be smaller than expected. BAN renewals normally include the repayment of 20 percent of principal as a means of reducing the outstanding balance evenly over the five-year life of the BAN. This would amount to approximately \$925,000 for the District, or almost twice the amount of operating surplus projected for June 30, 2007.

District officials believe that the District should be able to pay off larger portions of the BANs principal in future years because of anticipated payments in lieu of taxes from a power plant that may be built. However, as of March 15, 2007, this project has been temporarily blocked by court order and its future is not determinable. The District has no written agreement or other documentation to support the expected receipt of any payments from this power plant. The proposed budget for the 2007-2008 fiscal year does not include any revenue from the power plant.

We recommend that the District consider redeeming the BANs from the proceeds of the issuance of 10-year serial bonds to finance the general fund deficit as authorized by the State Legislature. The issuance of serial bonds would reduce debt service payments to more realistically attainable levels in the 2007-2008 fiscal year and the years to follow. Regardless of which course of action the District decides to take, the budget for the 2007-2008 fiscal year requires an appropriation for principal repayment. In addition, the District needs to provide additional revenue estimates in the budget to pay for the principal repayment appropriations. If the District decides to issue serial bonds, officials must act quickly because the option of 10-year deficit financing will no longer be available after June 30, 2007.

Revenue – Building Aid

The 2007-2008 proposed budget includes estimated revenue of \$7.1 million for State Building Aid. This estimate is based on an erroneous projection. The District estimates \$1.9 million in aid for projects that were filed with the State Education Department prior to 2002, and an additional \$5.2 million in aid for capital projects that were filed during the 2006-2007 fiscal year. However, because the District filed SA-139 reports for current capital projects after November 10, 2006, the District is not eligible for Building Aid for these projects during the 2007-2008 fiscal year. The District will not receive aid for these projects until the 2008-2009 fiscal year. The 2007-2008 State budget includes an appropriation of only \$1.9 million for Building Aid and State Education Department officials have confirmed that the District will receive only \$1.9 million, which is \$5.2 million less than the amount included in the 2007-2008 proposed budget. We recommend that the District revise its budget to take into account this shortfall in State aid by either reducing expenditures or identifying alternative revenues.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the 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 also 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 your school district. If you have any questions on the scope of our work, please contact our Long Island regional office at (631) 952-6534.

Very truly yours,

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

cc: William Fanning, Ed. D. Assistant Superintendent for Business
Nancy Poulos, District Clerk
Hon. Owen H. Johnson, Chair, Senate Finance Committee
Hon. Herman D. Farrell Jr., Chair, Assembly Ways and Means Committee
Hon. Patricia A. Eddington, State Assembly Representative
Hon. Caesar Trunzo, State Senator
Paul E Francis, Director, Division of the Budget
Richard P. Mills, Commissioner, NYS Education Department
Edward J. Zero, Superintendent, Eastern Suffolk BOCES
Richard Rennard, Chief Examiner, Office of the State Comptroller
Mr. James Conway, State Education Department