



THOMAS P. DiNAPOLI
COMPTROLLER

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER
110 STATE STREET
ALBANY, NEW YORK 12236

STEVEN J. HANCOX
DEPUTY COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY
Tel: (518) 474-4037 Fax: (518) 486-6479

April 14, 2008

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

Report Number: B7-8-8

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

Pursuant to Chapter 354 of the Laws of 2006, the State Legislature authorized the East Moriches Union Free School District to issue debt totaling \$2 million to liquidate the accumulated deficit in the District's general fund as of June 30, 2006. Chapter 354 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.

The District's board, no later than five days prior to the adoption of the budget, shall review all recommendations and may make adjustments to its proposed budget consistent with those recommendations contained in this report. All recommendations that the board rejects shall be explained in writing to our Office.

Our Office has recently completed an audit of the District's tentative budget for the 2008-09 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 2008-09 fiscal year:

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

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS), with the exception of reporting views of responsible officials. Officials' views 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 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 regarding the estimates in 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. We do not offer comments on public policy decisions, such as the type and level of services to be provided.

The tentative budget package submitted for audit for the fiscal year ended June 30, 2009, consisted of the following:

- Cover Letter
- 2008-09 Tentative Budget
- Supplementary Information

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

Fund	Appropriations and Provisions for Other Uses	Estimated Revenues Other Than RPT	Appropriated Fund Balance	Real Property Taxes (RPT)
General	\$23,402,580	\$6,569,369	\$550,000	\$16,283,211

Based on the results of our audit, except as noted below, we found the significant revenue and expenditure projections in the tentative budget to be reasonable. 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.

Appropriated Fund Balance

The District's tentative budget provides for \$550,000 of unreserved fund balance to be used to help finance 2008-09 appropriations. We note that the District's independent audit report for the fiscal year ended June 30, 2007 reported a total unreserved fund balance of \$82,711. Based on our review and our comparison of the revenue and expenditure projections in the District's fund balance calculation with more current information on State aid and tuition costs, we believe that revenues could exceed expenditures in the current year by as much as \$900,000. This would increase the District's unreserved fund balance to approximately \$1 million at June 30, 2008. Most of the operating surplus is due to a \$600,000 grant in aid which is non-recurring (one-shot) revenue that will not necessarily be received in the following year. The additional surplus of \$300,000 is mostly due to the current year's tuition costs being less than the amount budgeted.

Assuming the District continues with its current plans to use \$550,000 in fund balance to help finance the 2008-09 budget, unreserved fund balance at June 30, 2008 would be about \$450,000.

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. In addition, one-shot revenue sources should not be used to finance recurring operating expenses. We generally advise that excess fund balance and one-shot revenue sources be used to finance non-recurring expenses or to reduce outstanding debt. We acknowledge that the amount of unreserved fund balance actually available will be more readily determinable as the District nears the end of its fiscal year.

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.

Appropriations

We identified certain appropriations which we feel are not adequate in the proposed 2008-09 budget. Accordingly, we suggest the following observations be considered during the budget adoption process.

Energy and Utilities Costs

Costs associated with energy and utilities (i.e. gas, electricity, heating oil and water) have steadily increased over the last few years. While the District has increased its appropriations for energy costs in prior years' budgets, the budgetary increases have not kept pace with actual expenditures. The following chart includes the combined appropriations and expenditures for utilities and fuel costs:

Fiscal Year	Budget	Actual (Projected for 2007-08)	Amounts Exceeding Appropriations
2005-06	\$210,000	\$307,919	\$97,919
2006-07	\$275,475	\$320,422	\$44,947
2007-08	\$317,913	\$341,364	\$23,451

The 2008-09 tentative budget includes appropriations of \$366,729 for energy costs and utilities. We project that the District could expend approximately \$341,364 on energy costs and utilities in the current school year, which is \$23,451 more than the amount budgeted for the current year.

Based on our analysis of the costs of electricity and fuel oil, two individual categories of energy and utilities costs in the 2008-09 tentative budget, we estimate that appropriations for these expenses are not sufficient to cover the projected increases for the 2008-09 fiscal year. The following chart shows that appropriations for electricity and heating oil in the 2008-09 tentative budget are only slightly higher than the current year's projected expenditures for these costs.

	2006-07 Actual	2007-08 Projected	2008-09 Tentative Budget	Percent Change - 2007-08 Projected to 2008-09 Budget
Electricity	\$207,300	\$223,141	\$233,717	4.74%
Fuel Oil	37,521	62,123	61,108	(1.63%)
Total	\$244,821	\$285,264	\$294,825	3.36%

An analysis of the District's heating oil bills shows that during the 2006-07 fiscal year, the District paid \$1.80 to \$1.92 per gallon for heating oil. The District paid \$2.83 per gallon for its last delivery received in January 2008, and the current average price per gallon of heating oil on Long Island is more than \$4 per gallon. Given the present volatility in the energy market, and particularly the increase in heating oil prices over the last year, we recommend that District officials amend the budget to factor in potential increases in electricity and heating oil costs.

Board of Cooperative Educational Services (BOCES)

The District receives various services from the Eastern Suffolk BOCES. These services include management services, student services and special education services. District officials contend that the overall level of BOCES services should remain relatively constant through the 2008-09 fiscal year.

The 2008-09 tentative budget includes appropriations of approximately \$1.5 million for BOCES service costs. We project that the current year costs for these services will be about \$1.55 million, exceeding the current year's appropriations of \$1.45 million by about \$100,000. Even though the District's level of services will not increase during the next fiscal year, the costs of these services are likely to increase and exceed current year's projections. By applying the Consumer Price Index of 4 percent to the current year's projected costs, we estimate that the District could expend approximately \$1.6 million during the next fiscal year for these services. This is approximately \$100,000 more than the amount budgeted by the District. We recommend that District officials contact the BOCES for the most recent data available on the projected service cost increases for the next fiscal year and review the amount appropriated to determine if it is sufficient.

Health Insurance

The 2008-09 tentative budget includes health insurance appropriations of approximately \$1.1 million. Actual health insurance costs for the 2006-07 fiscal year were \$1.1 million, and we project these costs will remain stable for the 2007-08 fiscal year and will not exceed the current year appropriations of \$1.1 million. However, according to the New York State Health Insurance Program (NYSHIP), 2008 premiums are projected to increase by an average of 5 to 6 percent. Since the amount budgeted for the 2008-09 fiscal year is less than 1 percent more than projected 2007-08 health insurance expenditures, we estimate that health insurance costs could be under-budgeted by approximately \$62,000. We recommend that District officials reconsider the adequacy of this appropriation.

The Board has the responsibility to initiate corrective action. Pursuant to Section 10.10 of Local Finance Law, the Board shall review the recommendations in this report and may make adjustments to its proposed budget. The Board must explain in writing to our office any recommendations that it has rejected. In addition, pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, the Board must approve a corrective action plan that addresses the findings in this report, forward the plan to our office within 90 days, forward a copy of the plan to the Commissioner of Education, and make the 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 District. If you have any questions on the scope of our work, please feel free to contact Jeffrey Leonard, Chief Examiner at the Hauppauge Regional Office, at (631) 952-6534.

Very truly yours,

Steven J. Hancox
Deputy Comptroller

cc: Victoria Galante, Business Official
Patricia Prendergast, District Clerk
Edward J. Zero, District Superintendent – Eastern Suffolk BOCES
Hon. Owen H. Johnson, Chair, Senate Finance Committee
Hon. Herman D. Farrell, Jr., Chair, Assembly Ways and Means Committee
Hon. Fred W. Thiele, Jr., Assemblyman
Hon. Kenneth LaValle, Senator
Laura L. Anglin, Director, Division of Budget
Richard P. Mills, Commissioner, NYS Education Department
James Conway, Director, Office of Audit Services, State Education Department
Jeffrey P. Leonard, Chief Examiner, Hauppauge Regional Office