



**THOMAS P. DiNAPOLI**  
COMPTROLLER

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

**GABRIEL F. DEYO**  
DEPUTY COMPTROLLER  
DIVISION OF LOCAL GOVERNMENT  
AND SCHOOL ACCOUNTABILITY  
Tel: (518) 474-4037 Fax: (518) 486-6479

April 9, 2015

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: B7-15-5

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. Local Finance Law Section 10.10 requires all local governments that have been authorized to issue obligations to fund operating deficits to submit to the State Comptroller each year, starting with the fiscal year during which the local government is authorized to issue obligations and for each subsequent fiscal year during which the deficit obligations are outstanding, their tentative budget for the next succeeding fiscal year.

The budget must be submitted no later than 30 days before the date scheduled for the governing board's vote on the adoption of the budget or the last date on which the budget may be finally adopted, whichever is sooner. The State Comptroller must examine the tentative budget and make recommendations for any changes that are needed to bring the tentative budget into balance. Such recommendations are made after the examination into the estimates of the District's revenues and expenditures.

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

Our Office has recently completed a review of the District’s budget for the 2015-16 fiscal year. The objective of the review was to provide an independent evaluation of the tentative budget. Our review addressed the following question related to the District’s budget for the 2015-16 fiscal year:

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

To accomplish our objective in this review, we requested your tentative budget, salary schedules, debt payment schedules and other pertinent information. We identified and examined significant estimated revenues and expenditures for reasonableness with emphasis on significant and/or unrealistic increases or decreases. We analyzed, verified and/or corroborated trend data and estimates, where appropriate. We identified any significant new or unusually high revenue or expenditure estimates, made appropriate inquiries and reviewed supporting documentation to determine the nature of the items and to assess whether the estimate was realistic and reasonable. We also evaluated the amount of fund balance appropriated in the tentative budget to be used as a financing source and determined if the amount of fund balance was available and sufficient for that purpose.

The scope of our review does not constitute an audit under generally accepted government auditing standards (GAGAS). We do not offer comments or make specific recommendations on public policy decisions, such as the type and level of services under consideration to be provided.

The tentative budget package submitted for review for the 2015-16 fiscal year consisted of the following:

- 2015-16 Tentative Budget
- Supplementary Information

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

<b>Fund</b>	<b>Appropriations and Provisions for Other Uses</b>	<b>Estimated Revenues</b>	<b>Appropriated Fund Balance</b>	<b>Real Property Taxes</b>
General	\$26,343,808	\$6,939,641	\$275,000	\$19,129,167

Based on the results of our review, we found that the significant revenue and expenditure projections in the tentative budget are reasonable, except for appropriations for tuition fees for high school students, charter school tuition fees and social security and Medicare taxes. In addition, we believe revenues from tuition payments received from other districts may be overestimated.

The following findings should be reviewed by the 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 the District to continue improving its financial condition.

## **General Fund Appropriations**

Tuition Payments for High School Students – The District consists of one elementary school and one middle school that serve grades kindergarten through eighth grade. The District pays three other school districts tuition for approximately 370 resident students to attend high school. The estimated rates for tuition payments are established by the State Education Department (SED) for both regular education and special education students.

The 2015-16 tentative budget includes appropriations for tuition payments for high school students totaling more than \$8.3 million. Based on the rates for tuition established by SED and the District's estimated number of students that will attend high school for the 2015-16 fiscal year, District officials may be underestimating tuition costs by as much as \$154,000. According to District officials, the estimated rates released by SED are historically higher than the actual rates charged by the school districts. Therefore, they are optimistic that this historical trend will be consistent in the 2015-16 fiscal year. We caution District officials that if the school districts charge tuition payments at the estimated rates established by SED, the District will experience a budget shortfall in 2015-16 of as much as \$154,000.

Social Security and Medicare Taxes – Social security and Medicare taxes apply to payments of salaries for services performed at the District. The 2015-16 tentative budget contains an appropriation of \$546,365 for the payment of the social security and Medicare taxes that are associated with projected salaries to be paid by the District. Based on the total projected salaries provided by the District, the estimated costs for social security and Medicare taxes could total as much as \$593,713, which is \$47,348 more than budgeted. We recommend District officials calculate the payment of social security and Medicare taxes for applicable projected salaries at the established rates<sup>1</sup> and adjust the budgeted appropriations as necessary.

Charter School Tuition Fees – The District's 2015-16 tentative budget includes appropriations for charter school tuition totaling \$97,000. The District has maintained a budget of \$97,000 for charter school tuition fees for three fiscal years despite a trend of rising costs. The District's actual charter school tuition costs for the 2013-14 fiscal year totaled \$175,112, \$78,112 more than the adopted budget. The projected costs for the 2014-15 fiscal year are the same as the previous budget. We recommend District officials review this appropriation and adjust the budget, if necessary.

## **General Fund Revenue**

Tuition Payments Received From Other Districts – The 2015-16 tentative budget includes estimated revenues of \$273,000 from tuition payments received from other school districts, an amount that is inconsistent with declining revenues experienced in the recent past. The District realized approximately \$250,000 in the 2013-14 fiscal year from tuition charges. Projected results for the 2014-15 fiscal year are approximately \$235,000. District officials should review the contracts with the other school districts and reduce the budgeted revenues.

---

<sup>1</sup> Social security tax is calculated at 6.2 percent of gross pay; Medicare tax is calculated at 1.45 percent of gross pay.

## Tax Cap Compliance

The State Legislature and the Governor enacted Chapter 97 of the Laws of 2011 that established a tax levy limit on all local governments and school districts, which was effective beginning in the 2012 fiscal year. The law precludes a school district from adopting a budget that requires a tax levy that exceeds the prior year's tax levy by more than 2 percent or the rate of inflation, whichever is less, and certain exclusions permitted by law, unless 60 percent of district voters approve a budget that requires a tax levy that exceeds the statutory limit. A simple majority, or 50 percent of district voter approval, is required if the proposed tax levy does not exceed the statutory limit.

The District's proposed budget complies with the tax levy limit because it includes a tax levy of \$19,129,167, which increases the 2015-16 tax levy within the limits established by law. In adopting the 2015-16 budget, the District should be mindful of the legal requirement to maintain the tax levy increase to no more than the calculated limit, unless 60 percent of District residents vote to exceed this statutory limit.

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

We hope that this information is useful as you adopt the upcoming budget for the District. If you have any questions on the scope of our work, please feel free to contact Ira McCracken, Chief Examiner of our Long Island Office, at (631) 952-6534.

Very truly yours,

Gabriel F. Deyo  
Deputy Comptroller

cc: Dr. George Chesterton, Interim Assistant Superintendent for Business  
Jacqueline Franke, District Clerk  
Dean T. Lucera, Chief Operating Officer, Eastern Suffolk BOCES  
Hon. John A. DeFrancisco, Chair, Senate Finance Committee  
Hon. Herman D. Farrell, Jr., Chair, Assembly Ways and Means Committee  
Hon. Fred W. Thiele, Jr., NYS Assembly  
Hon. Kenneth P. LaValle, NYS Senate  
Mary Beth Labate, Director, Division of the Budget  
Elizabeth Berlin, Acting Commissioner, State Education Department  
Maria C. Guzman, Director, Office of Audit Services, State Education Department  
Andrew A. SanFilippo, Executive Deputy Comptroller  
Ira McCracken, Chief Examiner