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April 12, 2004

Mr. Terrence L. Olivo
Superintendent of Schools and
Members of the Board of Education
Monroe-Woodbury Central School District
Education Center Rt. 32
Central Valley, New York 10917

Dear Superintendent Olivo and Members of the Board of Education:

Chapter 158 of the Laws of 2003 authorized the Monroe-Woodbury Central School District to issue debt totaling approximately \$6,000,000 to liquidate the accumulated deficit in the District's general fund as of June 30, 2003. Chapter 158 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 revenue and expenditures of the District and prior to the approval of the budget.

Our office has recently completed an audit of the School District's budget for the 2004-2005 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 2004-2005 fiscal year:

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

Is the District's budget structurally balanced so that recurring costs are financed with recurring revenues?

We conducted our audit in accordance with Generally Accepted Government Auditing Standards with the exception of reporting views of responsible officials, which were omitted from this report due to the necessity of providing the District with this time-sensitive information. Such standards require 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 revenue 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, 2005, submitted for audit consisted of the following:

- Cover Letter
- 2004-2005 Tentative Budget
- Supplementary Information

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

Fund	Appropriations and Provisions for Other Uses	Estimated Revenue Other Than RPT	Appropriated Fund Balance	Real Property Taxes (RPT)
General	\$112,277,831	\$31,369,090	\$2,000,000	\$78,908,741

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, except as noted below, we found the significant revenue and expenditure projections in the tentative budget to be reasonable and the District's budget structurally balanced. The following findings should be reviewed by the Board of Education for appropriate action. Good management practices require that District officials take prompt action concerning our recommendation. We believe that prompt action by District officials will help improve the District's financial condition.

Appropriated Fund Balance

District officials project an unreserved fund balance of approximately \$2.3 million at June 30, 2004. The 2004-2005 proposed budget includes an appropriation of \$2 million from this projected fund balance to help finance 2004-2005 operations. If the remaining fund balance of approximately \$300,000 is not sufficient to provide for unanticipated expenditures or to offset potential revenue shortfalls in the coming year, the District would need other financing sources to fund operations. In addition, if 2004-2005 results of operations exactly equal the proposed budget, fund balance would not be replenished and, therefore, would not be available to finance the 2005-2006 budget. Consequently, the Board will have to identify other recurring revenues or reduce appropriations in the 2005-2006 budget to replace the \$2 million of appropriated fund balance that will no longer be available to finance future budgets.

We recommend that the Board of Education reconsider the amount of fund balance being appropriated in the 2004-2005 budget. In addition, District officials should closely monitor 2004-2005 operations to ensure that immediate action is taken, if necessary, to prevent negative variances from creating a fund deficit.

State Aid

The proposed budget for the 2004-2005 fiscal year estimates State Aid revenue of \$29,096,090. As of the date of our review, the New York State budget has not been adopted, and therefore the amount of State Aid for education is not yet finalized. We note that the Governor's budget includes proposed State Aid of \$29,649,146 for the District. Therefore, the District's proposed budget is based on a conservative estimate of State Aid. We urge the District to monitor State budget proceedings, including the status of proposed education aid, and be prepared to take action if final State Aid appropriations are known before the adoption of the District's budget.

The Board of Education has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, the Board of Education 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 of Education to make this plan available for public review in the 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 Mario Lijoi at (845) 567-0858.

Very truly yours,

Steven J. Hancox
Assistant Comptroller

cc: Eleanor Varian, Clerk of the Board of Education
Claire Perez, President, Board of Education
John J. Staiger, Jr., Assistant Superintendent for Business and Management Services
Hon. Owen H. Johnson, Chair, Senate Finance Committee
Hon. Herman D. Farrell, Jr., Chair, Assembly Ways and Means Committee
Michael Abbott, Director, Office of Audit Services, State Education Department
Carole E. Stone, Director, Division of Budget
Hon. William Larkin, Senator
Hon. Nancy Calhoun, Assemblywoman
Mario Lijoi, Regional Principal Examiner