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April 10, 2006

Dr. Eric Ely
Superintendent of Schools
and Members of the Board of Education
Schenectady City School District
108 Education Drive
Schenectady, N.Y. 12303

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

Pursuant to Chapters 375 and 376 of the Laws of 2000, the State Legislature authorized the Schenectady City School District (District) to issue debt totaling \$5,432,550 to liquidate the accumulated deficit in the District's general fund as of June 30, 2000. Chapter 375 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 tentative 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 tentative budget for the 2006-07 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 tentative budget for the 2006-07 fiscal year:

- Are the District's revenue and expenditure projections in the tentative 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 (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 were 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 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, 2007, submitted for audit consisted of the following:

- Cover Letter
- 2006-07 Tentative Budget
- Supplementary Information

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

Fund	Appropriations and Provisions for Other Uses	Estimated Revenues Other than RPT	Appropriated Fund Balance	Real Property Taxes (RPT)
General	\$120,840,518	\$71,191,470	\$1,675,000	\$47,974,048

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.

Our audit disclosed the following findings that should be reviewed by the Board of Education 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 improve the District's financial condition.

Appropriation of Fund Balance

School districts may generally retain, at the end of each fiscal year, an unreserved unappropriated fund balance in the general fund of up to 2 percent of the district budget for the ensuing year. These moneys may be used to meet ordinary contingent expenses. Any unreserved funds in excess of the limit are to be used to reduce the amount of taxes levied for the upcoming year.

Based on the District's tentative budget for 2006-07, the District could retain 2 percent of \$120,840,518, or \$2,416,810, as unreserved fund balance at the end of the 2005-06 fiscal year.

The 2006-07 tentative budget includes the appropriation of \$1.6 million of fund balance to help finance 2006-07 operations. District officials project that approximately \$8.4 million in fund balance may be available. If the District appropriates only \$1.6 million of fund balance, the unreserved fund balance at the end of the 2005-06 is projected to total \$6.8 million or approximately \$4.4 million in excess of what the law allows. The amount of fund balance actually available will be more readily determinable as the District nears the end of the fiscal year. The District should monitor their year end fund balance and develop plans for using or reserving fund balance in excess of the 2 percent limitation. We generally recommend that the use of one-shot revenue such as fund balance be used for one-time expenditures such as reducing debt or capital expenditures.

State Aid

The tentative budget for the 2006-07 fiscal year estimates State Aid revenue of \$63,521,563. However, the Governor's budget includes proposed State Aid of \$64,641,229 for the District. Therefore the District's tentative 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 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 the District. If you have any questions on the scope of our work, please feel free to contact our Albany Regional Office at (518) 438-0093.

Very truly yours,

Mark P. Pattison
Deputy Comptroller

cc: Mr. Jeff Janiszewski, President, Board of Education
Richard E. Yager, Clerk of the Board of Education
Dr. Michael San Angelo, Assistant Superintendent for Business
Hon. Owen H. Johnson, Chair, Senate Finance Committee
Hon. Herman D. Farrell, Jr., Chair, Assembly Ways and Means Committee
Mr. John F. Cape, Director, Division of the Budget
Hon. Hugh T. Farley, State Senator
Hon. Paul D. Tonko, State Assembly Representative
Mr. Michael Abbott, Director, Office of Audit Services, State Education Department