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April 10, 2006

Mr. Lonnie Palmer
Superintendent of Schools, and
Members of the Board of Education
Enlarged City School District of Troy
1728 Tibbits Avenue
Troy, New York 12180-7013

Dear Superintendent Palmer and Members of the Board of Education:

Pursuant to Chapter 83 of the Laws of 2002, the State Legislature authorized the Enlarged City School District of Troy (District) to obtain funds from the proceeds of special school deficit program bonds to liquidate the cumulative deficit in the District's general fund as of June 30, 2002. Chapter 83 requires that, among other things, for each fiscal year during which such debt is outstanding, the District submit its 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 examination into the estimates of revenues and expenditures and prior to the adoption of such budget.

Our office has recently completed an audit of the District's budget for the 2006-2007 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 2006-2007 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 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 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:

- 2006-2007 Tentative Budget
- Supplementary Information

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

Appropriations and Provisions for Other Uses	Estimated Revenues other than Real Property Taxes	Appropriated Fund Balance	Real Property Taxes
\$81,981,525	\$48,806,525	\$4,625,000	\$28,550,000

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 (Board) for appropriate action. We believe that prompt action by District officials will help improve the District's financial condition. Furthermore, pursuant to Chapter 83, the Board shall review any recommendations and may make adjustments to its tentative budget consistent with the State Comptroller's recommendations. Any recommendations that the Board rejects shall be explained in writing.

Appropriation of Fund Balance

School districts may generally retain, at the end of each fiscal year, an unreserved fund balance in the general fund of up to 2 percent of the district budget for the ensuing year. These monies 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 2006-2007, the District could retain 2 percent of \$81,981,525, or \$1,639,631, as unreserved fund balance at the end of the 2005-2006 fiscal year.

The District's tentative budget includes an appropriation of unreserved fund balance of \$4,625,000 to finance 2006-2007 appropriations. We note that the District's independent audit report for fiscal year 2004-2005 reported a total unreserved fund balance of approximately \$11.9 million. District officials indicated that they anticipate using approximately \$2 million of fund balance during the current year, which would result in the unreserved fund balance decreasing to

approximately \$9.9 million. After considering the appropriation of \$4.6 million in fund balance to finance 2006-2007 appropriations, the unreserved fund balance would be \$5.3 million (\$9.9 million less \$4.6 million), which is approximately \$3.7 million in excess of what should be retained (\$5.3 million less \$1.6 million the District can retain). The amount actually available will be more readily determinable as the District nears the end of its 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 District's tentative budget for the 2006-2007 fiscal year estimates State Aid revenue of \$43,226,059. However, the New York State budget proposed by the State Legislature includes State Aid of \$42,283,889 for the District, or about \$942,000 less than the District's estimate. Included in the District's State Aid revenue amount is an estimate of \$2.4 million for aid entitled "Projected Aid to Small Cities," which is not included in the Legislature's proposal. District officials stated that this estimated aid has been received in this amount annually over the past few years and has similarly not been included in the Legislature's prior years' proposals for State Aid. Until the State budget is adopted, 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 significantly different from the amounts budgeted.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the 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 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 your District. If you have any questions on the scope of our work, please feel free to contact the Glens Falls Regional Office at 518-793-0057.

Very truly yours,

Steven J. Hancox
Assistant Comptroller

cc: Eva DeFiglio, District Clerk
James Matthews, Business Manager
Mary O'Neill, District Treasurer
Hon. Owen H. Johnson, Chair, Senate Finance Committee
Hon. Herman D. Farrell, Jr., Chair, Assembly Ways and Means Committee
Hon. Pat M. Casale, State Assembly Representative
Hon. Ronald Canestrari, State Assembly Representative
Hon. Joseph Bruno, State Senator
Mr. Richard P. Mills, Commissioner of Education
Mr. John F. Cape, Director, Division of the Budget
Mr. Michael Abbott, Director, Office of Audit Services, State Education Department
Mr. Karl M. Smoczynski, Chief Examiner