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April 18, 2007

Mr. Lonnie Palmer
Superintendent of Schools and
Members of the Board of Education
Enlarged City School District of Troy
2920 Fifth Avenue
Troy, New York 12180

Report Number B5-7-11

Dear Superintendent Palmer and Members of the Board of Education:

Chapter 83 of the Laws of 2002 authorizes the Enlarged City School District of Troy (District) to issue debt totaling \$14,472,603 to liquidate the accumulated deficit in the District's general fund as of June 30, 2002. Chapter 83 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 prior to the approval of the budget.

Our office has recently completed an audit of the District's budget for the 2007-2008 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 2007-2008 fiscal year:

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

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 ending June 30, 2008, submitted for audit consisted of the following:

- 2007-2008 Tentative Budget
- Supplementary Information

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

Fund	Appropriations and Provisions for Other Uses	Estimated Revenues	Appropriated Fund Balance	Real Property Taxes
General	\$88,343,645	\$55,306,897	\$4,625,000	\$28,411,748

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 for as noted below, we found the significant revenue and expenditure projections in the tentative budget to be reasonable. Our audit disclosed the following findings which 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.

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. An unreserved fund balance in excess of the limit is to be used to reduce the amount of taxes levied for the upcoming year. Based on the District's tentative budget for 2007-2008, the District could retain 2 percent of \$88,343,645, or \$1,766,873, as unreserved fund balance at the end of the 2006-2007 fiscal year.

The District's tentative budget provides for \$4,625,000 of unreserved fund balance to be used to help finance 2007-2008 appropriations. We note that the District's independent audit report for the fiscal year ended June 30, 2006 reported a total unreserved fund balance of approximately \$10.9 million. District officials anticipate an operating surplus of approximately \$1 million for the current fiscal year, which will increase the District's unreserved fund balance to approximately \$11.9 million at June 30, 2007. Assuming the District continues with its current plans to use \$4.6 million in fund balance to help finance the 2007-2008 budget, unreserved fund balance at June 30, 2007 would be approximately \$7.3 million. This is approximately \$5.5 million in excess of the

amount that the District is currently authorized to retain. 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. The District should monitor its year-end fund balance projections and develop plans for using unreserved fund balance in excess of the 2 percent limitation.

In addition, we generally advise that excess fund balance be used to finance non-recurring expenses or to reduce outstanding debt. 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.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, the Board should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days. We encourage the Board 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 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 your District. If you have any questions on the scope of our work, please contact Karl Smoczynski, Chief Examiner in our Glens Falls Regional Office, at 518-793-0057.

Very truly yours,

Steven J. Hancox
Assistant Comptroller
Division of Local Government Services
and Economic Development

Attachments

cc: Eva DeFiglio, District Clerk
Michael Ouimet, Assistant Superintendent for Business and Support Services
Mary O'Neil, District Treasurer
Hon. Owen H. Johnson, Chair, Senate Finance Committee
Hon. Herman D. Farrell, Jr., Chair, Assembly Ways and Means Committee
Hon. Tim Gordon, State Assembly Representative
Hon. Ronald Canestrari, State Assembly Representative
Hon. Joseph Bruno, State Senator
Mr. Richard P. Mills, Commissioner of Education
Mr. Paul E. Francis, Director, Division of Budget
Mr. James Conway, Director, Office of Audit Services, State Education Department
Mr. Karl M. Smoczynski, Chief Examiner