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April 7, 2008

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

Report Number: B6-8-4

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

Chapter 375 and 376 of the Laws of 2000 authorizes 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. 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 or preliminary 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 proposed budget into balance. Such recommendations are made after the examination into the estimates of revenues and expenditures of the District.

Our Office has recently completed an audit of the District budget for the 2008-09 fiscal year. The objective of the audit was to provide an independent evaluation of the proposed budget. Our audit addressed the following question related to the District budget for the 2008-09 fiscal year:

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

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS), with the exception of reporting views of responsible officials. Officials' views 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions regarding the estimates in the tentative/proposed budget.

To accomplish our objectives in this audit, we requested your tentative/proposed 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. We do not offer comments on public policy decisions, such as the type and level of services to be provided.

The tentative budget package submitted for audit for the fiscal year ended June 30, 2009 consisted of the following:

- Cover Letter
- 2008-09 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	\$153,120,267	99,241,773	3,600,000	50,278,494

Based on the results of our audit, except for the District's appropriation of fund balance to finance ongoing operations, we found the significant revenue and expenditure projections in the proposed budget to be reasonable. Our audit disclosed the following issues that should be reviewed by the Board of Education (Board) for appropriate action.

Submission of Preliminary Budget to OSC

The observations and the 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.

Local Finance Law was amended in 2007 to require the District to submit the preliminary budget for the succeeding fiscal year to the State Comptroller no later than 30 days before the date scheduled for the governing board's vote on the adoption of the budget. The Board is scheduled to adopt the budget on April 9, 2008. The preliminary budget was not submitted to our Office

until March 27, 2008, 13 days before the scheduled budget adoption vote. As a result, the District may not have sufficient time to thoroughly review and consider any recommendations made on the budget as a result of our review.

Appropriated Fund Balance

For school districts, the amount of unreserved and unappropriated fund balance for the 2008-09 fiscal year cannot exceed four percent of their budget. Therefore, the District's unappropriated fund balance cannot exceed about \$6.1 million. The District projects that its fund balance at June 30, 2008 will be approximately \$5.8 million which is less than the legal limit. The District's 2008-09 proposed budget includes the appropriation of \$3,600,000 of projected fund balance to help finance 2008-09 operations. We caution District officials about their decision to finance operating expenditures with fund balance. This practice can result in future budget gaps, since fund balance monies may not then be available in the event of future unexpected expenditures or revenue shortfalls. Fund balance, as a one-time revenue source, is best used to finance one-time costs, reduce debt, or to pay for capital costs. We recommend that District officials closely monitor the use of fund balance to ensure that action is taken, if necessary, to identify other funding sources that can be used if fund balance is no longer available to fund District operations.

The Board has the responsibility to initiate corrective action. Pursuant to Section 10.10 of Local Finance Law, the Board shall review the recommendations in this report and may make adjustments to its proposed budget. The Board must explain in writing to our office any recommendations that it has rejected. In addition, pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, the Board must approve a corrective action plan that addresses the findings in this report, forward the plan to our office within 90 days, forward a copy of the plan to the Commissioner of Education, and make the 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 the District. If you have any questions on the scope of our work, please feel free to contact Ken Madej at (518) 438-0093.

Very truly yours,

Steven J. Hancox
Deputy Comptroller

cc: Dr. Michael San Angelo, Assistant Superintendent for Business
Mr. James Baldwin, Interim District Superintendent – BOCES
Hon. Owen H. Johnson, Chair, Senate Finance Committee
Hon. Herman D. Farrell Jr., Chair, Assembly Ways and Means Committee
Hon. George Amedore, State Assembly Representative
Hon. Hugh T. Farley, State Senator
Ms. Laura L. Anglin, Director, Division of the Budget
Mr. Richard P. Mills, Commissioner, State Education Department
Mr. James Conway, Director, Office of Audit Services, State Education Department
Mr. Kenneth Madej, LGSA Regional Chief Examiner