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April 24, 2008

Mr. Fadhilika Atiba-Weza, Superintendent
Members of the Board of Education
Enlarged City School District of Troy
2920 Fifth Avenue
Troy, New York 12180

B5-8-15

Dear Superintendent Atiba-Weza 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 to issue debt totaling \$14,472,603 to liquidate the accumulated deficit in the District's general fund as of June 30, 2002. 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 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.

The District's Board of Education (Board), no later than five days prior to the adoption of the budget, must review all recommendations made by the State Comptroller and may make adjustments to its tentative budget consistent with those recommendations contained in this report. All recommendations that the Board rejects must be explained in writing to our Office.

Our Office has recently completed an audit of the District's budget for the 2008-09 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 2008-09 fiscal year:

- Are the significant revenue and expenditure projections in the District’s tentative budget reasonable?
- Did the District take appropriate action to implement or resolve recommendations contained in the budget review audit report issued in April 2007

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 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. 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, 2009, submitted for audit consisted of the following:

- 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	\$93,257,638	\$57,586,068	\$6,125,000	\$29,546,570

Based on the results of our audit, we found the significant revenue and expenditure projections in the tentative budget to be reasonable. Our audit disclosed the following issue that should be reviewed by the Board for appropriate action.

Appropriation of Fund Balance

The 2008-09 tentative budget includes the appropriation of \$6,125,000 of fund balance to help finance 2008-09 operations. After the appropriation of this amount of fund balance, the amount remaining would still result in an unreserved and unappropriated fund balance of \$5.6 million. This amount exceeds the 4 percent statutory limit set for school districts for the 2008-09 fiscal year by approximately \$1.9 million.

We recognize that the District is required to take reasonable steps to keep the amount of unreserved and unappropriated fund balance below the legal limit. In our prior budget review, issued in April 2007, we reported that, based on the 2007-08 tentative budget, the District’s unreserved fund balance would likely exceed 2 percent of its budget, the legal limit at that time. However, District officials did not make appropriate modifications to their 2007-08 budget in

response to our audit. District officials are facing the same legal limit issue in this year's budget, even though the statutory limit has been increased.

It is essential that District officials keep an amount of unreserved and unappropriated fund balance that complies with the legal limit, but that they do so in a fiscally responsible manner that does not jeopardize the District's future financial stability. We generally advise that excess fund balance be used to finance non-recurring expenses or to reduce outstanding debt. Using excess fund balance to pay for ongoing costs can result in future budget gaps, since such funds may not be available in subsequent years. District officials should monitor the District's year end fund balance and develop plans for reserving fund balance that exceeds the 4 percent limitation. District officials could also consider reducing property taxes in a measured way to return some of the excess fund balance to District residents.

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 Karl Smoczynski, Chief Examiner of our Glens Falls Regional Office, at (518) 793-0057.

Very truly yours,

Steven J. Hancox
Deputy Comptroller

cc: Eva DeFiglio, District Clerk
Mary O'Neil, Business Coordinator
Mr. James N. Baldwin, Questar III Superintendent
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
Ms. Laura L. Anglin, Director, Division of Budget
Mr. James Conway, Director, Office of Audit Services, State Education Department
Mr. Karl M. Smoczynski, Chief Examiner