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March 22, 2013

Dr. William Silver  
Superintendent of Schools  
Members of the Board of Education  
Liberty Central School District  
115 Buckley Street  
Liberty, NY 12754

Report Number: B4-13-4

Dear Superintendent Silver and Members of the Board of Education (Board):

Chapter 380 of the Laws of 2003 authorizes the Liberty Central School District (District) to issue debt totaling \$1.3 million 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 proposed budget for the next succeeding fiscal year.

The budget must be submitted no later than 30 days before the date scheduled for the 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 proposed 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 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 proposed 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 a review of the District’s budget for the 2013-14 fiscal year. The objective of the review was to provide an independent evaluation of the proposed budget. Our review addressed the following questions related to the District’s budget for the 2013-14 fiscal year:

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

To accomplish our objectives in this review, we requested your proposed budget, salary schedules, debt payment schedules, and other pertinent information. We identified and examined significant estimated revenues and expenditures for reasonableness with emphasis on significant and/or unrealistic increases or decreases. We analyzed, verified and/or corroborated trend data and estimates, where appropriate. We identified any significant new or unusually high revenue or expenditure estimates, made appropriate inquiries, and reviewed supporting documentation to determine the nature of the items and to assess whether the estimate was realistic and reasonable. We also evaluated the amount of fund balance appropriated in the proposed budget to be used as a financing source and determined if the amount of fund balance was available and sufficient for that purpose. In addition, we inquired and checked whether written recommendations from the prior year’s budget review were implemented or resolved and, therefore, incorporated as part of the current year’s budget.

The scope of our review does not constitute an audit under generally accepted government auditing standards (GAGAS). We do not offer comments or make specific recommendations on public policy decisions, such as the type and level of services under consideration to be provided.

The proposed budget package submitted for review for the fiscal year ending June 30, 2014, consisted of the following:

- 2013-14 Proposed budget
- Supplementary information

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

<b>Fund</b>	<b>Appropriations and Provisions for Other Uses</b>	<b>Estimated Revenues</b>	<b>Appropriated Fund Balance</b>	<b>Real Property Taxes</b>
General	\$40,965,122	\$20,984,380	\$1,000,000	\$18,980,742
Food Service	\$1,048,747	\$1,012,585	\$36,162	\$0

Based on the results of our review, except for the matter described below, we found that the significant revenue and expenditure projections in the proposed budget are reasonable.

Our review disclosed the following findings which should be reviewed by the Board 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.

### **Food Service**

The food service fund ended the 2011-12 fiscal year with a total fund balance of \$68,851, of which \$49,557 was available for appropriation. The 2013-14 proposed fiscal year budget for the food service fund includes appropriated fund balance in the amount of \$36,162. Through February 28, 2013, the food service fund had spent \$10,517 more than they received in revenue, which reduces the available fund balance to \$39,040. The amount of available fund balance will decline further if the food service operations continue to spend more than they receive. Depending on the results of operations for the rest of this fiscal year, the food service fund may not have \$36,162 available to appropriate at the end of the 2012-13 fiscal year. Therefore, we recommend District officials prepare a projection of year-end fund balance for the food service fund to determine how much fund balance they can reasonably appropriate before they adopt their 2013-14 budget.

Additionally, the 2013-14 fiscal year budget for the food service fund includes a transfer from the general fund of \$195,000. This transfer represents an increase from the \$185,000 transferred to date in the current 2012-13 fiscal year and the \$175,000 transferred in the 2011-12 fiscal year. In addition, loans from other funds have increased to \$80,000. The food service fund has come to rely on these transfers from the general fund each year. These subsidies will only continue to drain the general fund's fund balance. District officials told us they are aware of the subsidies the food service fund is receiving, and are attempting to address it by increasing revenues and reducing expenditures within the food service fund. We recommend District officials develop a long-term plan to reduce the need for general fund subsidies to fund the food service fund.

### **Tax Cap Compliance**

The State Legislature enacted Chapter 97 of the Laws of 2011 that established a tax levy limit on all local governments and school districts, which was effective beginning in the 2012 fiscal year. The law precludes a school district from adopting a budget that requires a tax levy that exceeds the prior year's tax levy by more than 2 percent or the rate of inflation, whichever is less,<sup>1</sup> and certain exclusions permitted by law, unless 60 percent of district voters approve a budget that requires a tax levy that exceeds the statutory limit.

The District's proposed budget complies with the tax levy limit because it includes a tax levy of \$18,980,742, which increases the 2013-14 tax levy within the limits established by law. In adopting the 2013-14 budget, the Board should be mindful of the legal requirement to maintain the tax levy increase to no more than the tax levy limit as permitted by law, unless it obtains the proper voter approval to override the tax levy limit.

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

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<sup>1</sup> Our office has previously determined that the rate of inflation applicable to school districts with a fiscal year beginning July 1, 2013, is greater than 2 percent. Therefore, the property tax levy is capped at 2 percent.

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 Todd Eames, Chief Examiner of the Binghamton Regional Office, at (607) 721-8306.

Very truly yours,

Steven J. Hancox  
Deputy Comptroller  
Division of Local Government and  
School Accountability

cc: Lorine Lamerand, Business Manager  
Tania DeFrank, Clerk of the Board  
Lawrence Thomas, District Superintendent of Sullivan County BOCES  
John A. DeFrancisco, Chair, Senate Finance Committee  
Herman D. Farrell, Jr., Chair, Assembly Ways and Means Committee  
Aileen M. Gunther, State Assembly  
John J. Bonacic, State Senate  
Robert L. Megna, Director, Division of the Budget  
John B. King, Jr., Commissioner, State Education Department  
James Conway, Director, Office of Audit Services, State Education Department  
H. Todd Eames, Chief Examiner