



H. Carl McCall
Comptroller
State of New York
Office of the State Comptroller
Division of Municipal Affairs



The University of The
State of New York
The State Education Department
Office of Audit Services
Albany, New York 12234

Greater Amsterdam School District

Report of Examination

2001M-35

March 23, 2001

**To: David Squillace, President of the Board of Education
Herbert Scialabba, Vice President, Ronald Limoncelli,
Superintendent, Robert Blinsinger, Alexander Fabozzi,
Sandra Griffin, Barbara Persico, Emanuel Rosen, Anthony
Vecchio, James Walrath, Board Members**

From: Richard H. Cate and Patricia Lamb McCarthy

Subject: Greater Amsterdam School District- Final Report of Examination

We enclose the final report of examination (2001M-35) related to the examination of the Greater Amsterdam School District (District) for the period July 1, 1998 through September 30, 2000. The examination was conducted jointly by the Office of the State Comptroller and the State Education Department.

We believe the keys to success in improving the District's fiscal health are: the preparation of budgets which include sound estimates; timely and periodic monitoring of the budget; accurate and timely financial reports; and accurate and timely filed state aid claims. Office of the State Comptroller and State Education Department staff are prepared to assist the District in improving its fiscal and administrative operations. However, the impetus to achieve the much needed improvements must come from the Board of Education working with the Superintendent and senior managers.

Within ninety days of the issuance of this report, the District should submit a plan of action that addresses our recommendations. We appreciate the cooperation and courtesies extended to the staff during the examination.

Enclosure

cc: See attached distribution list

Distribution List

Mr. Frank Bianchi
Director of Elementary Instruction
Greater Amsterdam School District
11 Liberty Street
Amsterdam, NY 12010

Mr. Robert Blinsinger
Member
Board of Education
Greater Amsterdam School District
38 Chapel Place
Amsterdam, NY 12010

Mr. Richard Cate
Chief Operating Officer
New York State Education Department
Room 125 EB
Albany, NY 12234

Mr. Geoffrey H. Davis
District Superintendent of Schools
Hamilton-Fulton-Montgomery BOCES
Suite One
25 West Main Street
Johnstown, NY 12095-0665

Mr. Richard H. Dinolfo, CPA
Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, NY 12801

Ms. Janice Dyer
Director of Secondary Instruction
Greater Amsterdam School District
11 Liberty Street
Amsterdam, NY 12010

Mr. Alexander S. Fabozzi
Member
Board of Education
Greater Amsterdam School District
143 Stewart St.
Amsterdam, NY 12010

The Honorable Hugh T. Farley
State Senator
Room 412- Legislative Office Building
Albany, NY 12247

Mr. Charles Foster
Chief Budget Officer
Division of the Budget
Room 140
State Capitol Building
Albany, NY 12224

Ms. Sandra L. Griffin
Member
Board of Education
Greater Amsterdam School District
280 Golf Course Rd.
Amsterdam, NY 12010

Mr. Bruce W. Hayden
Principal Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, NY 12801

Mr. James Kadamus
Deputy Commissioner for Elementary, Middle, Secondary and Continuing Education
New York State Education Department
Room 875 EBA
Albany, NY 12234

Mr. Ronald E. Limoncelli
Superintendent of Schools
Greater Amsterdam School District
Central Administration Building
11 Liberty Street
Amsterdam, NY 12010

The Honorable H. Carl McCall
Comptroller
New York State Office of the State Comptroller
Alfred E. Smith State Office Building
6th Floor
Albany, NY 12236

Mr. Richard Mills
Commissioner
New York State Education department
Room 111 EB
Albany, NY 12234

Ms. Sarah Morrison
Audit Manager
Charles L. Marvin and Company
3000 Troy-Schenectady Road
Schenectady, NY 12309-1647

Mr. William Mycek
School Attorney
Greater Amsterdam School District
11 Liberty Street
Amsterdam, NY 12010

Ms. Barbara Persico
Member
Board of Education
Greater Amsterdam School District
49 Highland Ave
Ft. Johnson, NY 12070

Mr. Burt Porter
Director of Finance
New York State Education Department
Room 139 EB
Albany, NY 12234

Mr. Emanuel Rosen
Member
Board of Education
Greater Amsterdam School District
16 Lincoln Ave
Amsterdam, NY 12010

Ms. Theresa Savo
Chief Financial Officer
New York State Education Department
Room 139 EB
Albany, NY 12234

Mr. Herbert Scialabba
Vice President
Board of Education
Greater Amsterdam School District
4 Bylina Lane
Amsterdam, NY 12010

Mr. Roger Seward
Business Manager
Greater Amsterdam School District
Central Administration Building
11 Liberty Street
Amsterdam, NY 12010

Mr. Thomas Sheldon
Associate Commissioner for Planning and Policy Development
New York State Education Department
Room 128 EB
Albany, NY 12234

Mr. David A. Squillace
President
Board of Education
Greater Amsterdam School District
85 VanDyke Ave
Amsterdam, NY 12010

Ms. Josephine Spagnola
Clerk of the Board
Greater Amsterdam School District
Central Administration Building
11 Liberty Street
Amsterdam, NY 12010

Mr. Charles Szuberla
Coordinator
Office of Facilities, Management and Information Services
New York State Education Department
Room 885EB
Albany, New York 12234

The Honorable Paul D. Tonko
Member of the Assembly
Amsterdam District Office
Guy Park Manor
366 West Main Street
Amsterdam, NY 12010

Mr. Lawrence S. Trzaskos
34 Tunnel Rd.
Willsboro, NY 12296

Mr. Daniel Tworek
Director
Office of Audit Services
New York State Education Department
Room 524 EB
Albany, NY 12234

Mr. Anthony S. Vecchio
Member
Board of Education
Greater Amsterdam School District
1429 Midline Rd
Amsterdam, NY 12010

Mr James Walrath
Member
Board of Education
Greater Amsterdam School District
16 Crane Street
Amsterdam, NY 12010

Report: 2001M-35
Filed: March 23, 2001

**TO THE PRESIDENT AND MEMBERS
OF THE BOARD OF EDUCATION
OF THE GREATER AMSTERDAM SCHOOL DISTRICT,
MONTGOMERY COUNTY, NEW YORK:**

The following is our report on the District's financial position, the various financial trends that have affected or will affect the District's financial condition, and certain budgetary practices. The issues and concerns identified in this report should be studied considering the District's unique needs and circumstances. Implementation of our recommendations regarding the District's financial planning, management and budgetary systems will result in improved accountability on the part of the District and improved understanding by taxpayers and others who provide the District's fiscal resources.

Among my top priorities as the State Comptroller is to maintain a strong partnership between my office, state agencies, and the local governments of New York State. One of the main objectives of this partnership is to assist local governments in improving their financial condition and strengthening their financial planning, management and budgetary control systems. Members of my municipal audit staff and the staff of the State Education Department's Office of Audit Services have worked diligently with School District officials and have produced this report that I believe will assist school District officials in improving the District's financial operations.

Strengthened financial planning and management systems allow school District officials to identify current and emerging fiscal problems before they disrupt operations, develop plans for addressing these concerns and monitor the effectiveness of any corrective action taken. Therefore, it is vitally important that the financial management recommendations in this report be addressed so that school District officials have better information upon which to base management decisions.

Maintaining a strong partnership between my office, the State Education Department, and the District will enable us to serve the taxpayers more effectively by making better use of our limited resources. Toward this end, I look forward to continuing to work with your District and all other local governments throughout the State.

If my office can be of assistance to you or if you have any questions concerning this audit report, please feel free to contact my Glens Falls regional office listed at the back of this report.

Very truly yours,

Office of the State Comptroller

OFFICE OF THE STATE COMPTROLLER
DIVISION OF MUNICIPAL AFFAIRS

**Albany, New York
December 21, 2000**

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GREATER AMSTERDAM SCHOOL DISTRICT INTRODUCTION

• Authority •

This examination of the Greater Amsterdam School District was conducted jointly by the Office of the State Comptroller and the State Education Department pursuant to the State Constitution, Article V, §1, Article 7 of the Education Law, and further authority vested in the State Comptroller by Article 3 of the General Municipal Law.

• Background •

The Greater Amsterdam School District has an enrollment of approximately 3,700 students. It is a small city school district (population of less than 125,000) and as such is subject to the provisions of Section 1318, of the Real Property Tax Law. Section 1318 limits the amount of the general fund's unrestricted and unreserved fund balance (surplus) that the District can accumulate to two percent of the current year's budget. At the end of the 1996 - 1997 fiscal year, the District's general fund surplus significantly exceeded the amount permitted by Section 1318. In order to comply with this statutory requirement, the District's management apparently recognized the need to reduce the general fund surplus. The District's management continued their practice of reducing the general fund surplus by using significant amounts of the surplus to reduce the real property tax levies over the next three years, until the surplus was completely depleted at the end of the 1999-2000 fiscal year. (See Chart 1, Page 15)

Effective August 20, 1997, the voters of the District were given the ability to vote on the District's budget. If the voters do not approve the budget originally proposed by the Board of Education, the Board has a variety of options, which include resubmitting the proposed budget or adopting a contingency budget. When the District's 2000-2001 budget was not approved by the voters, the Board of Education chose not to resubmit the budget for voter approval and adopted a contingency budget. A contingency budget is limited to providing funding for teacher's salaries and those items the Board of Education determines to be "ordinary and contingent expenses".

The District's proposed 2000-2001 budget included real property tax revenues of \$15.5 million, which would have represented an increase of approximately 38% over the property tax revenues for the year 1999-2000, to help finance the \$36.5 million of general fund proposed expenditures. After the voters rejected the District's proposed budget, the District received a \$1 million grant-in-aid from the New York State Legislature and used it to reduce the real property tax burden. As a condition for the acceptance of the grant-in-aid, the District is required to prepare quarterly financial reports and submit them to the Commissioner of Education.

• Purpose and Scope •

Our responsibilities were to review the financial condition and related fiscal operations of the School District in order to identify the areas needing improvement and to inform District officials and the public of our findings and recommendations. Consistent with these responsibilities, this examination's objectives were to identify conditions indicating possible fiscal stress and recommend improvements to the District's financial planning and management process related to financial position for the period July 1, 1998, through September 30, 2000. This report should be viewed as a tool to be used by District officials and the public to determine the improvement opportunities available to the District and begin the implementation of such improvements.

Our examination addressed the following questions about the District's financial position:

- What is the District's current financial position?
- How did the District become fiscally stressed?
- What can the District do to improve its financial position?

Our examination consisted of an assessment of the District's financial position as of June 30, 2000. In addition, we reviewed how the District arrived at this financial position by examining certain financial trends. Further, we attempted to estimate where the District's finances may be headed, if current trends continue.

The staff of the Offices of Audit Services Unit of the State Education Department reviewed the District's state aid claiming and reporting process for the period July 1, 1995 through September 30, 2000, to determine if the District had adequate systems and controls in place to ensure valid and reliable data to support claims for state aid are obtained, maintained, and fairly disclosed in reports on a timely basis.

During the course of this examination, we noted that the District may have opportunities for improvement with respect to compliance with Regulations of the Commissioner of Education, state statutes, guidance of the Office of the State Comptroller, and prudent business practices. However, as noted above, the objective of this examination was to address concerns relating to the District's fiscal health. Consequently, the recommendations included in this report are limited to those, which relate to the District's budgeting, financial record keeping and state aid claiming processes. In the future, we may provide the District with a service, which would, among other things, include identifying and reporting on the improvement opportunities we noted.

• Methodology •

To accomplish our objectives, staff from the Office of the State Comptroller and the State Education Department (SED) reviewed preliminary financial information and agreed upon the areas of concern to be addressed by the staff from each office. We then met with District officials to determine their needs and concerns. We reviewed the District's financial information and state aid claims, interviewed District officers and employees involved in the administrative and financial functions of the District and observed the District's financial recording and reporting process. We also interviewed the District's independent auditor and reviewed the annual audit reports for the period June 30, 1995, through June 30, 2000.

Based upon our review and interviews, we assessed risk and identified issues, which we believe merited additional study and analysis. This approach focused our efforts on those issues that we believed had the greatest need for improvement. As a result, our report highlights areas needing further study and improvement and does not address activities that may be functioning properly or even well above expected performance levels.

SED staff contributed information to this report in relation to the comments and findings in the area of State Aid.

We conducted our examination in accordance with Generally Accepted Government Auditing Standards. Such standards require that we plan and perform our examination to adequately assess those areas included within our examination scope. Further, these standards require that we assess the District's internal controls when necessary to satisfy our audit objectives. Our examination included such tests, which we considered necessary to satisfy our audit objective. We believe that our examination provides a reasonable basis for our report. It was not our objective to, and we do not, express an Audit Opinion on the financial statements of the District.

• Corrective Action •

The Board of Education has the responsibility to initiate corrective action. In accordance with Section 35 of the General Municipal Law, the Board of Education should review this report and prepare a plan of action that addresses our recommendations. Any such plan should be available for public review in the District clerk's office and should be forwarded to the State Comptroller's Office within 90 days of the receipt of this report. Our offices are available to assist you by providing guidance for preparing the plan.

• Results of Examination •

Financial Condition

The District's Current Financial Condition

The District began to experience fiscal stress during the 1999-2000 fiscal year. As of June 30, 2000, the District reported a general fund deficit of approximately \$800,000 and there was no provision in the 2000-2001 budget to fund the deficit. Moreover, the District's financial records had not been completed until November 2000, more than four months after the end of the District's fiscal year, and there was nothing in the Board minutes to indicate that the Board was aware of the need to provide for the funding of the deficit fund balance in the District's budget for the 2000-2001 fiscal year. Based upon the information provided to us by the District's business manager and the State Education Department's State Aid Unit, it appears that after taking into account the \$1 million grant - in - aid approved by the State Legislature the District will receive approximately \$2.8 million less state aid than the amount that was estimated in the 2000-2001 contingency budget. Although the District's business manager informed us that he believed that the District's 2000-2001 budget contained approximately \$1.5 million to \$1.7 million in favorable budgetary variances with respect to appropriations for instructional services, this will not be sufficient to offset the overestimation of state aid.

The District experienced cash flow difficulties in December of 1999, and the Board of Education approved a resolution authorizing the District to borrow money for cash flow purposes. In January of 2000 the District issued a \$3 million revenue anticipation note to provide cash to temporarily finance operations. When the note matured in June of 2000, the District was unable to retire it and renewed the note for another six months. The District was again unable to retire the note when it matured in December of 2000. As of the completion of our field work, on December 21, 2000, District officials were not certain as to when the District would be in a position to redeem the note. If the District does not take action to improve its cash flow situation, its cash position may deteriorate further.

The financial condition of the District is largely dependent upon the choices made by the District's management, and since we do not know the choices that the District's management intends to or will make, we cannot be certain of the financial outcome of the current fiscal year. Based on the information made available to us and representations of District officials, we project the District will experience an operating deficit of approximately \$1 million during the 2000-2001 fiscal year. The effect of this operating deficit will be to increase the District's accumulated fund balance deficit to approximately \$1.8 million at June 30, 2001. If the current financial trend continues, the District could be faced with the need to significantly increase the real property tax levy and or curtail operations.

How The District Became Fiscally Stressed

The District became fiscally stressed because it used all of its general fund surplus to reduce real property taxes without making any provision for alternative revenues to help finance operations when the surplus was exhausted. In addition, the District significantly overestimated state aid revenues when preparing the budgets during the past two years. The lack of sufficient Board of Education oversight over the budget process and the fiscal operations of the District, the lack of filing some state aid claims and the late submission of other state aid claims and the lack of timely, complete and accurate records and reports also contributed to fiscal stress.

Use of General Fund Surplus

At June 30, 1997, the general fund's surplus of \$3 million exceeded the statutorily established maximum of two percent (\$600,000) of the (1997-98) current year's budget (\$32 million), by \$2.4 million. In an apparent effort to address the statutory limitation, the District continued its practice of appropriating general fund balance to reduce real property tax levies as follows:

\$1.6 million toward the 1997-98 budget;

\$2 million toward the 1998-99 budget;

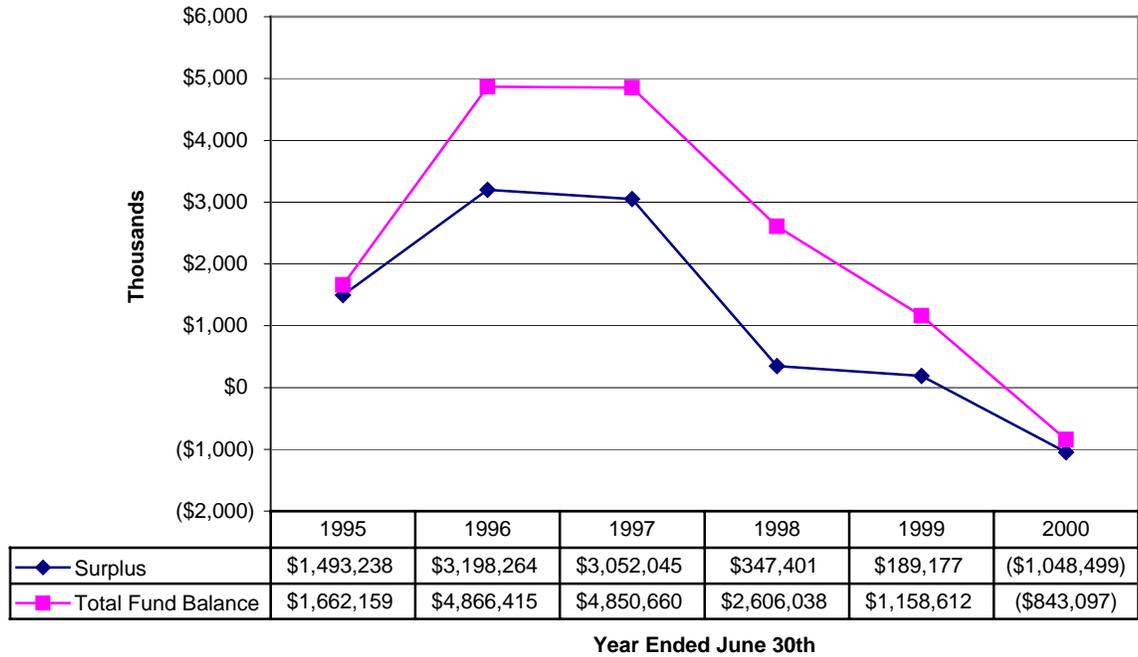
\$800 thousand toward the 1999-00 budget.

Over this three-year period, the District used \$4.4 million dollars of fund balance to reduce taxes and effectively gave \$4.4 million dollars back to the taxpayers while its expenses continued to grow. By June 30, 2000, the District had not only exhausted the funds available to reduce real property taxes, but had a fund balance deficit of \$800,000 (See Chart 1).

Chart 1 below, shows the surplus funds and total fund balances declining at the end of each of the last four fiscal years. The difference in fund balance and surplus represents the amount of fund balance the district has reserved or designated for various purposes.

CHART 1

Changes in Surplus Funds and Total Fund Balances



(Continued on Next Page.)

Chart 2 below, depicts the percentage of change in the tax levy and budgeted expenses over the past six years, using the year ended June 30, 1995, as the base year:

CHART 2

**Percentage Change of Budgeted Expenses and Tax Levy
Year Ended June 30**

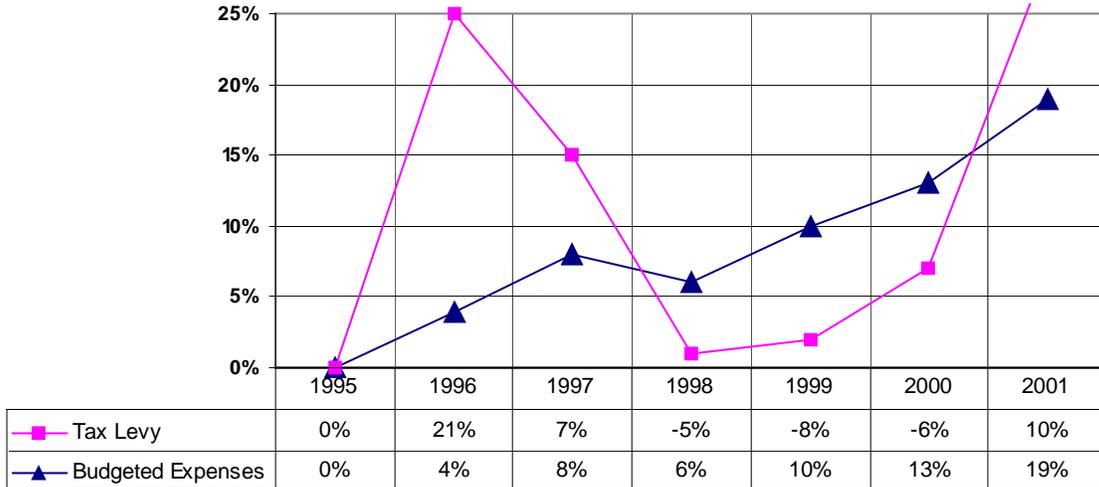
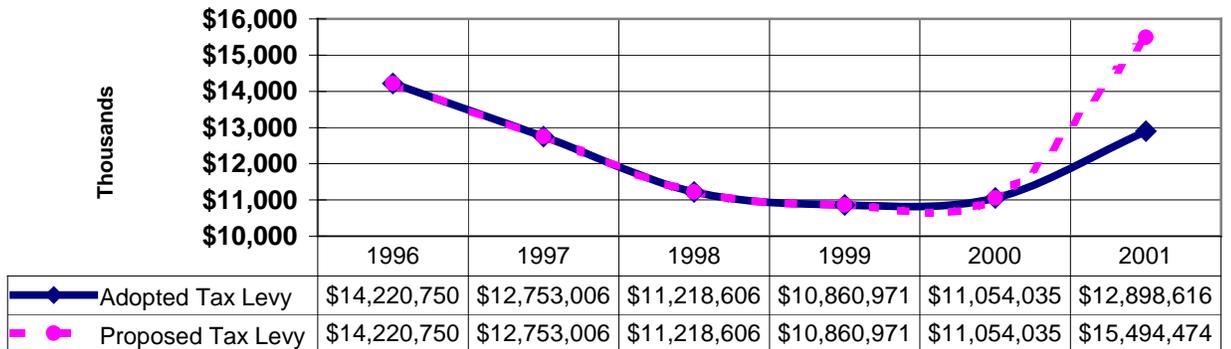


Chart 3 below shows the declining amounts of the tax levy for the past years.

CHART 3

Change in Tax Levy - 1996 to 2001



The proposed 2000-2001 budget presented to the voters contained a provision for \$36.5

million of expenditures to be financed by a real property tax levy of \$15.5 million, state aid of \$19.7 million and the remaining \$1.3 million by other revenues. The budget was rejected by the District's voters. Among the factors that may have influenced their decision was the prospect of a 38% increase in the tax levy. The Board chose to adopt a contingency budget which contained authorization for \$36.1 million of expenditures to be financed by a real property tax levy of \$12.9 million, state aid of \$21.9 million and the remaining \$1.3 million to be financed by other revenues. A portion of the increase in the state aid estimate is attributable to the \$1 million grant-in-aid promised to the District after the budget was voted down. District officials were not able to provide adequate supporting documentation as to how they arrived at the other \$1.2 million increase in the estimated amount of state aid.

Overestimation of State Aid

The District's budgets for the 1999-2000 and 2000-2001 fiscal years contained unrealistic estimates of state aid revenues. In the 1999-2000 year the District received \$2.6 million less state aid than the \$19.8 million estimated in the budget. Based on estimates from the State Aid Unit of the New York State Education Department and representations made by the business manager, the District's state aid revenues for the 2000-2001 year will be approximately \$2.8 million less than the \$21.9 million estimated in the contingency budget.

The overestimation of state aid in the 1999-2000 year budget was the primary cause of a \$2 million decline in the general fund balance during the year. Similarly, the overestimation of state aid will be the primary cause of an operating deficit of approximately \$1 million in the 2000-2001 year.

Board's Oversight

The budget status reports furnished to the Board of Education for the first three months of the 1999-2000 and 2000-2001 fiscal years did not include a comparison of budgeted and actual revenues (8NYCRR 170.2). In addition, the Board did not receive monthly projections of revenues, expenditures and year-end fund balances for the 1999-2000 fiscal year. Good business practice dictates that such information be made available monthly to the Board.

The lack of such budgetary information impaired the Board's ability to monitor the budget and identify and address timely the overestimation of state aid revenues in the 1999-2000 fiscal year. In part, because the Board did not take steps to address the overestimation of state aid and to modify the District's budgets, the District incurred an operating deficit which caused a \$2 million decline in the general fund balance during the 1999-2000 year and we project a deficit of approximately \$1 million in the 2000-2001 fiscal year.

As a condition for the acceptance of a \$1 million grant-in-aid received by the District during the 2000-2001 year, the District is required to prepare quarterly financial reports to the Board of Education and submit them, after they are approved by the Board, to the Commissioner of Education. We noted that the District prepared and submitted to the

Commissioner a report for the quarter ended September 30, 2000. However, the District's report did not fully comply with the grant-in-aid requirements for such reports in that it was not accompanied by a recommendation from the superintendent of schools or the chief fiscal officer setting forth any remedial action necessary to resolve unfavorable budget variances, including overestimation of revenue.

As of the completion of our field work, on December 21, 2000, the Board of Education had not received projected budgetary information for the 2000-2001 year. As a result, the Board had not taken steps to address the overestimation (\$2.8 million) of state aid in the District's budget for the 2000-2001 fiscal year. If this unfavorable budgetary variance is not adequately addressed and in a timely manner, the District's financial condition and cash position may further deteriorate and the District may be faced with the need to identify other financing sources and or curtail operations.

State Aid Claims

During the course of this examination, we identified opportunities for improvement of the District's state aid claiming process. We noted that some of the district's claims were filed late while other claims were not filed at all. As a result, the District has experienced delays in receiving some state aid while other state aid, for which claims were not filed, has been forfeited. For example, the District did not file the necessary claims for Private Excess Cost Aid for students with disabilities who attended private schools during the 1996-97 and 1997-98 years and, consequently, the District forfeited more than \$200,000 of state aid. Delayed payments and forfeited aid will adversely affect the District's state aid revenues and cash flow and will cause the District to increase its reliance on other revenues, such as real property taxes, as a source of financing the District's operations.

Financial Records and Reports

The District's financial records were not maintained in a timely manner. Specifically, the general ledger for the 2000-2001 fiscal year did not have any entries until November 4, 2000, four months after the fiscal year began, and the general ledger for the 1999-2000 fiscal year did not have any entries until November 29, 1999, nearly five months after the year began. In addition, budget status reports furnished to the Board of Education for the first three months of the 1999-2000 and 2000-2001 fiscal years lacked budgetary information pertaining to revenues primarily because the District's records were not maintained in a timely manner. Complete budgetary information, made available to the Board in a timely manner, improves the Board's ability to both monitor the District's budgets and to take appropriate action to address unfavorable budgetary variances.

The District did not file the audited financial statements and the annual financial reports on a timely basis primarily because the financial records upon which they were based were not maintained on a timely basis. Section 170.2, of the Regulations of the Commissioner of Education, requires the District to file their audited financial statements by October 1st of the following fiscal year. The District filed its audited financial statements 49 days late in 1999 and 94 days late in 2000. This resulted in the delay of more than \$1 million of state aid

payments in the 2000-2001 fiscal year and the potential loss of interest income. In addition, the District's annual financial report (ST-3) is required to be filed with the Office of the State Comptroller by September 1st. The annual report for the 1999-2000 fiscal year was filed two months late and contained significant errors when it was originally filed.

Cash Flow

The District has not prepared adequate cash flow projections for at least the past two years. This may have contributed to inadequate planning for investments and expenditures. In addition, the District's failure to file accurate and timely state aid claims has resulted in the delay of the receipt of substantial amounts of cash. These two factors, along with unrealistic budgetary estimates were the primary reason that the District experienced a cash deficiency in January of 2000, and borrowed \$3 million for more than a year at a cost in excess of \$100,000.

The lack of adequate and timely financial information has significantly impaired the ability of the Board of Education to maintain effective control over the District's financial resources and is among the causes of the current unfavorable financial position of the District.

What The District Can Do To Improve Its Financial Condition

➤ TRAINING

To avoid the reoccurrence of the difficulties experienced as a result of inadequate and untimely financial information and unrealistic budgetary estimates of state aid, the Board of Education and financial management staff of the District should receive training in budgeting and financial reporting. The training should enable the Board and staff to better understand the information they should be receiving and preparing and how to use that information to better manage the District's financial resources.

➤ ESTABLISH FINANCIAL REPORTING GUIDELINES

To ensure that the Board receives timely financial information and that required reports to external sources, such as the State Education Department and the Office of the State Comptroller, are filed timely, the Board of Education should review the District's current financial reporting process, determine the necessary revisions and establish financial reporting guidelines and schedules and take action to ensure that they are adhered to. This will aid the Board and District officials in obtaining and preparing the financial information necessary to make financial management decisions in an efficient and effective manner and should enhance the District's ability to receive the aid to which it is entitled in a timely manner.

➤ **DEVELOP A PLAN TO ADDRESS THE DEFICIT**

The Board should develop a plan to deal with the District's accumulated deficit fund balance in the general fund. In developing this plan, the Board should review the current budgetary status and projected financial position of the general fund at June 30, 2001. The Board will need to consider all options such as increasing real property taxes, securing additional revenue sources, reducing expenditures, and deficit financing.

➤ **LONG RANGE FINANCIAL PLAN**

The Board of Education should recognize that financial choices made in the current fiscal year may have a significant impact on the District's future operational and capital needs and resources. For example, the decision to use surplus to reduce the tax levy should be made only after its impact on District finances beyond the next year is carefully evaluated. As a general rule, decisions to delay maintenance or repairs may result in a lower expense in the current year, but could result in increased costs in the future or shortened life span for costly equipment and facilities. To make the most effective and efficient use of the District's resources, the Board of Education should undertake the preparation of a long range financial plan. This should enable the District's financial management to review and revise their financial projections so that the need for large changes in the property tax levy can be reduced or eliminated.

➤ **TRAINING IN THE PREPARATION AND FILING OF STATE AID CLAIMS**

Approximately 54% of the District's general fund revenues in 1999-2000 was state aid, which is based in large part on the data that the District collected and reported to the State Education Department. To ensure that the District receives all of the aid to which it is entitled and receives it in a timely manner, the Board of Education should ensure that the District's financial management staff receives training in the proper preparation and filing of aid claims. The Board should then ensure that a comprehensive review of the District's aid claim preparation and filing process is undertaken and adopt a written set of policies and procedures to guide District staff in the proper preparation and filing of aid claims.

APPENDIX
OFFICE OF THE STATE COMPTROLLER
DIVISION OF MUNICIPAL AFFAIRS

Patricia Lamb McCarthy, Deputy Comptroller
Rosemarie V. Rosen, Assistant Deputy Comptroller
Steven J. Hancox, Assistant Deputy Comptroller
LOCAL AREA OFFICE LISTING

BUFFALO AREA OFFICE

David H. Slusarz, Chief Examiner
Office of the State Comptroller
1050 Ellicott Square Building
295 Main Street
Buffalo, New York 14203
(716) 847-3647 Fax (716) 847-3643
Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming
E-Mail: Muni-Bufferalo@osc.state.ny.us

SYRACUSE AREA OFFICE

Debra Wagner, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202
(315) 428-4192 Fax (315) 426-2119
Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence
E-Mail: Muni-Syracuse@osc.state.ny.us

GLENS FALLS AREA OFFICE

Richard H. Dinolfo, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801
(518) 793-0057 Fax (518) 793-5797
Clinton, Essex, Franklin, Fulton,
Hamilton, Montgomery, Rensselaer,
Warren, Washington
E-Mail: Muni-GlensFalls@osc.state.ny.us

HAUPPAUGE AREA OFFICE

John R. Pollack, Chief Examiner
Office of the State Comptroller
NYS Office Bldg. Room 3A10
Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Nassau, Rockland, Suffolk, Westchester
E-Mail: Muni-Hauppauge@osc.state.ny.us

ROCHESTER AREA OFFICE

William W. Campbell, Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street - Suite 522
Rochester, New York 14614
(716) 454-2460 Fax (716) 454-3545
Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben,
Wayne, Yates
E-Mail: Muni-Rochester@osc.state.ny.us

BINGHAMTON AREA OFFICE

Patrick Carbone, Chief Examiner
Office of the State Comptroller
State Office Bldg. Room 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Broome, Chenango, Cortland, Delaware,
Otsego, Sullivan, Tioga, Tompkins
E-Mail: Muni-Binghamton@osc.state.ny.us

ALBANY AREA OFFICE

Thomas J. Kelly, Jr., Chief Examiner
Office of the State Comptroller
22 Computer Drive West
Albany, New York 12205
(518) 438-0093 Fax (518) 438-0367
Albany, Columbia, Dutchess, Greene,
Orange, Putnam, Saratoga, Schenectady,
Schoharie, Ulster
E-Mail: Muni-Albany@osc.state.ny.us