



# Town of Schaghticoke

## Budgeting

### Report of Examination

Period Covered:

January 1, 2010 — April 30, 2013

2013M-239



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## Division of Local Government and School Accountability

December 2013

Dear Town Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Town Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Town of Schaghticoke, entitled Budgeting. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*

# Introduction

## Background

The Town of Schaghticoke (Town), which encompasses the Village of Schaghticoke, is located in Rensselaer County and has 7,679 residents. The Town is governed by an elected five-member Town Board (Board), which comprises the Town Supervisor (Supervisor) and four council members. The Board is responsible for the general management and oversight of the Town's financial operations. The Supervisor serves as the Town's chief executive and chief fiscal officer. During our audit period, the Supervisor was assisted in these duties by a Board-appointed budget director. The budget director is responsible for compiling the initial budget estimates and producing the tentative budget. The Board is responsible for adopting and monitoring the annual budget.

The Town provides various services to its residents including general administration, road maintenance, snowplowing, and water and sewer services to residents of special districts located within the Town. The Town accounts for most of its financial activity in town-wide and part-town (outside village) general and highway funds, seven water district funds and three sewer district funds. The Town's 2013 adopted budget appropriations totaled \$4.1 million, which were financed mainly with real property taxes, sales tax, water and sewer user fees and State aid.

## Objective

The objective of our audit was to evaluate the Town's budgeting practices. Our audit addressed the following related question:

- Does the Town adopt realistic budgets that are structurally balanced to maintain the Town's fiscal stability?

## Scope and Methodology

We examined the Town's budgeting practices for the period January 1, 2010 through April 30, 2013.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix B of this report.

## Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our recommendations and have initiated, or indicated they planned to initiate, corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Town Clerk's office.

# Budgeting

The Board is responsible for making sound financial decisions that are in the best interest of the Town and its taxpayers. The Board must adopt realistic, structurally balanced budgets that provide for sufficient recurring revenues to finance recurring expenditures and provide reasonable estimates of revenues, expenditures and other financing sources. Town officials should avoid continually relying on unexpended surplus funds<sup>1</sup> to finance operations, which will eventually leave the Town without any financial cushion should unforeseen circumstances arise.

The Board routinely relied on unexpended surplus funds to finance town-wide general and certain water and sewer district operations, and it continually adopted budgets that did not provide sufficient revenues to fund expenditures. As a result, unexpended surplus funds declined in the town-wide general fund, two water district funds and one sewer district fund.

Town-wide General Fund — Fund balance decreased by more than \$362,000, or 39 percent, over the last three years. This decrease resulted because the Board consistently appropriated unexpended surplus funds to finance operations each year.

<b>Table 1: Town-wide General Fund – Operating Results and Fund Balance</b>			
	2010	2011	2012
Beginning Fund Balance	\$925,580	\$797,971	\$669,325
Operating Deficit	(\$127,609)	(\$128,646)	(\$106,577)
<b>Ending Fund Balance</b>	<b>\$797,971</b>	<b>\$669,325</b>	<b>\$562,748</b>
Less: Reserve Funds <sup>a</sup>	\$362,358	\$362,358	\$311,120
Less: Appropriated in Ensuing Year's Budget	\$291,217	\$274,819	\$135,651
<b>Unexpended Surplus Funds</b>	<b>\$144,396</b>	<b>\$32,148</b>	<b>\$115,977</b>
<sup>a</sup> As of December 31, 2012, the Town had the following reserves: Capital – \$130,110, Tax Stabilization – \$74,237 and Repair – \$106,773.			

Our review of the 2011 and 2012 budgets disclosed that appropriations were budgeted each year for proposed capital projects. Town officials planned to undertake these projects and therefore reasonably included

<sup>1</sup> The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term “unexpended surplus funds” to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year’s budget (after Statement 54).

them in the budget; however, no expenditures were actually incurred for these projects. For example, in 2012 there were three budget appropriations for projects totaling \$70,000 but no expenditures were made for them. Had these expenditures been made in accordance with the budget, the operating deficits would have been that much larger.

We commend the Board for reducing its 2013 total budget appropriations by more than \$64,000, reducing the amount of surplus funds appropriated for its 2013 budget by more than \$139,000 (from the amounts budgeted in 2012) and maintaining reserves which totaled over \$310,000 as of December 31, 2012. However, we estimate that planning to use unexpended surplus funds could further deplete them to approximately \$116,000 by the end of 2013. The Board will need a different strategy when developing its 2014 budget, which may require it to increase real property taxes or reduce services.

Water District Funds — The Town’s seven water districts generated approximately \$1.8 million in revenues from 2010 through 2012. However, the Board did not raise sufficient revenues to fund the operations for two of them (districts 4 and 4B). As a result, unexpended surplus funds were appropriated each year to fill this budget gap. Because these districts are small with few water customers,<sup>2</sup> they lack the flexibility to recover from a declining or deficit fund balance, making it more urgent that the Board adopts reasonable budgets.

The Board-adopted water district budgets included appropriated unexpended surplus funds to finance operations in each of the last three years. As a result, district 4’s ending fund balance decreased by more than \$6,000 and district 4B’s ending fund balance decreased by more than \$10,000. In addition, the Board appropriated more than \$3,500 of district 4’s unexpended surplus funds in 2011, when there was only about \$2,200 available for this purpose. Similarly in 2012, the Board appropriated more than \$1,300 of unexpended surplus funds with only about \$1,200 available. As a result of appropriating non-existent unexpended surplus funds district 4 began the 2012 and 2013 years with budgetary deficits.

	2010	2011	2012
Beginning Fund Balance	\$7,360	\$7,004	\$2,247
Operating Deficit	(\$356)	(\$4,757)	(\$1,000)
<b>Ending Fund Balance</b>	<b>\$7,004</b>	<b>\$2,247</b>	<b>\$1,247</b>
Less: Amount Appropriated in Ensuing Year’s Budget	\$3,383	\$3,510	\$1,374
<b>Unexpended Surplus Funds</b>	<b>\$3,621</b>	<b>(\$1,263)</b>	<b>(\$127)</b>

<sup>2</sup> These two districts had 94 customers as of December 31, 2012.

**Table 3: Water District 4B – Operating Results and Fund Balance**

	2010	2011	2012
Beginning Fund Balance	\$20,508	\$22,217	\$13,655
Operating Surplus/(Deficit)	\$1,709	(\$8,562)	(\$3,741)
<b>Ending Fund Balance</b>	<b>\$22,217</b>	<b>\$13,655</b>	<b>\$9,914</b>
Less: Amount Appropriated in Ensuing Year's Budget	\$3,373	\$2,926	\$1,090
<b>Unexpended Surplus Funds</b>	<b>\$18,844</b>	<b>\$10,729</b>	<b>\$8,824</b>

The Board did not increase either district's water user rates during any of the last three years. In addition, over this same time period, the Board increased district 4's ad valorem taxes<sup>3</sup> only a total of \$997 (which equated to an approximate \$27 increase for each district customer) and made no increases to district 4B's ad valorem taxes.

Our review of the 2013 budgets for both districts disclosed that the Board continued to raise insufficient revenues (user fees and ad valorem taxes) to finance operations. As a result, we estimate that these districts will incur operating deficits which could exceed the amounts the Board appropriated for the ensuing years' budgets even if there are no unplanned water-line repairs or other unanticipated expenditures.

Sewer District Funds — The Town's three sewer districts generated approximately \$528,000 in sewer revenues over the last three years. However, the Board did not raise sufficient revenues to finance sewer district 2's operations. As a result, ending fund balance declined significantly.

The 2011 through 2013 Board-adopted budgets for sewer district 2 included appropriated, unexpended surplus funds each year to finance operations. Because the Board continually relied on unexpended surplus funds as a financing source, ending fund balance decreased to approximately \$37,700 as of December 31, 2012, which included \$21,580 in reserve funds for a Board-established repair reserve to pay for future sewer repairs. The Board did not increase sewer user rates over the past three years; however, it increased the ad valorem taxes by a total of only about \$1,970, which equated to an approximate increase of \$7 for each district 2 customer.

<sup>3</sup> A special assessment imposed in the same manner as real property taxes (i.e., generally, an amount per \$1,000 of assessed value) used to pay a district's operating and maintenance costs

<b>Table 4: Sewer District 2 – Operating Results and Fund Balance</b>			
	<b>2010</b>	<b>2011</b>	<b>2012</b>
Beginning Fund Balance	\$80,130	\$71,067	\$63,802
Operating Deficit	(\$9,063)	(\$7,265)	(\$26,093) <sup>a</sup>
<b>Ending Fund Balance</b>	<b>\$71,067</b>	<b>\$63,802</b>	<b>\$37,709</b>
Less: Reserve Funds <sup>b</sup>	\$39,580	\$42,580	\$21,580
Less: Amount Appropriated in the Ensuing Year's Budget	\$6,878	\$9,841	\$9,261
<b>Unexpended Surplus Funds</b>	<b>\$24,609</b>	<b>\$11,381</b>	<b>\$6,868</b>
<sup>a</sup> Reserve funds were used for unexpected repairs needed in 2012 resulting in an operating deficit that was larger than planned. <sup>b</sup> As of December 31, 2012, the Town had a repair reserve totaling \$21,580.			

Our review of the 2013 budget disclosed that the Board continued financing district operations with insufficient revenues (user fees and ad valorem taxes). Additionally, it included an estimated operating deficit of approximately \$9,200 which, if realized, will further erode unexpended surplus funds.

The Board must remain aware that its continual use of unexpended surplus funds to finance town-wide general, water and sewer operations will eventually deplete them, which may significantly impair the Town's financial flexibility and cause future cash flow concerns. Town officials stated they appropriated unexpended surplus funds to keep the tax levy<sup>4</sup> and user rates stable. However, this practice resulted in budgets that were not structurally balanced because they relied on unexpended surplus funds to finance recurring expenditures. Additionally, the cost of operations is not sustainable based on the current levels of unexpended surplus funds maintained. As a result, Town officials may need to increase taxes and user fees if unexpended surplus funds are not available to finance operations in subsequent years. Any plans to replace financing with real property taxes will likely be limited by the Real Property Tax Cap Law, which limits any year-to-year increase to 2 percent of the prior year's tax, or the rate of inflation, whichever is less, with some exceptions.

## Recommendations

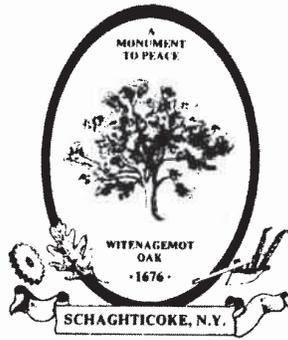
1. The Board should address the declining fund balances in the town-wide general and water and sewer district funds and adopt future budgets with less dependence on using unexpended surplus funds to finance operations.
2. The Board should review the user fees and ad valorem taxes for the respective water and sewer districts annually and revise them, if necessary, to ensure that sufficient revenue is generated to cover their operating cost.

<sup>4</sup> Real property and ad valorem taxes

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

The local officials' response to this audit can be found on the following pages.



November 21, 2013

[REDACTED]  
NYS Office of the State Comptroller  
Division of Local Government and School Accountability  
One Broad Street Plaza  
Glens Falls, NY 12801

Dear [REDACTED]:

I am in receipt of your email of October 28, 2013 and the Report of Examination for the Town of Schaghticoke for the fiscal operation for the period January 1, 2010 through April 30, 2013. This letter contains two parts. The first is our response to the preliminary draft report and the second is the plan of corrective action based on the report.

First let me say that I was gratified that, over a 40 month period of fiscal operation for the Town of Schaghticoke, there were no findings in your report. There were two recommendations that I would like to address. Your first recommendation addresses the declining fund balances in the town-wide general and water and sewer district funds which are used to finance operations. It has always been the practice of the Town of Schaghticoke to use fund balance to keep taxes at a minimum at the same time keeping fund balance at a safe level. As you know, over the past four years, the economy declined dramatically and the Town Board did everything they could to keep taxes as low as possible, therefore using more of our surplus than normal, without putting our financial condition in jeopardy. Now that the economy has improved, we will once again maintain fund balance at healthy levels.

Your second recommendation was the Town Board should review the user fees and ad valorem taxes for the respective water and sewer districts annually and revise them to ensure that sufficient revenue is generated to cover their operating cost. The Town of Schaghticoke is very hesitant to raise water fees to our residents but if it is necessary to maintain the fiscal health of our special districts, then the fees will be raised.

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N CARLSON

e of the Supervisor • 290 Northline Drive • Melrose, NY 12121-9707 • (518) 753-6915 x104 • Fax (518) 753-6915  
il: supervisor@townofschaghticoke.org

For each recommendation included in the audit report, the following is our plan for corrective action.

**Audit Recommendation:**

#1. The Board should address the declining fund balances in the town-wide general and water and sewer district funds and adopt future budgets with less dependence on using unexpended surplus funds to finance operations.

**Implementation Plan of Action:**

The 2014 budget which was passed by the Town Board has used significantly less fund balance in all funds both by reducing appropriations and implementing anticipated revenues. This budget will provide all funds with a minimal but healthy fund balance while staying within the 2014 Tax Cap.

**Implementation Date:**

On January 1, 2014, the new budget will be implemented which will be the beginning date for the corrective action.

**Person Responsible for Implementation:**

The Schaghticoke Town Board passed the budget and the Town Supervisor will oversee its implementation throughout 2014 and going forward.

**Audit Recommendation:**

#2. The Board should review the user fees and ad valorem taxes for the respective water and sewer districts annually and revise them, if necessary, to ensure that sufficient revenue is generated to cover their operating costs.

**Implementation Plan of Action:**

During the 2014 budget process, a full review of each special district was conducted by the Supervisor's Office. While water rates are kept constant for billing purposes, unless our supplier raises their rates, the ad valorem taxes were adjusted to ensure that sufficient revenues were generated to cover operating cost.

**Implementation Date:**

On January 1, 2014, the new budget will be implemented which will be the beginning date for the corrective action.

**Person Responsible for Implementation:**

The Schaghticoke Town Board passed the budget and the Town Supervisor will oversee its implementation throughout 2014 and going forward.

Thank you for the opportunity to respond to the audit. We were impressed with the professionalism from all representatives of the State Comptroller's Office and we appreciate the education that always comes from this encounter.

Very truly yours,

Jean Carlson  
Supervisor  
TOWN OF SCHAGHTICOKE

JMC/nh

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to examine the Town's budgeting practices for the period January 1, 2010 through April 30, 2013.

To accomplish our audit objective and obtain valid evidence, our procedures included the following:

- We interviewed Town officials to gain an understanding of the budgeting process.
- We reviewed the adopted budgets (2010-2013) to determine if they were structurally balanced and whether taxes were increased in all funds.
- We prepared a fund balance analysis for a three-year period (2010-2012) for each Town fund to determine if the amounts appropriated to the ensuing years' budgets were supported and available. We also projected town-wide general unexpended surplus funds through December 31, 2013 by deducting projected expenditures from projected revenues and adding the available fund balance at the beginning of 2012.
- We reviewed budget-to-actual reports for revenues and expenditures for our audit period to determine if the Town's estimated revenues and budgeted appropriations appeared reasonable.
- We reviewed the AUDs and trial balance reports from 2010 through 2012 to determine the amount of total revenues received in all water district funds and all sewer district funds.
- We reviewed the adopted budgets from 2010 through 2013 to determine if taxes were increased in the all the funds.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## APPENDIX C

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**DIVISION OF LOCAL GOVERNMENT**  
**AND SCHOOL ACCOUNTABILITY**

Andrew A. SanFilippo, Executive Deputy Comptroller  
Gabriel F. Deyo, Deputy Comptroller  
Nathalie N. Carey, Assistant Comptroller

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