



# Village of LeRoy

## Financial Condition

### Report of Examination

Period Covered:

June 1, 2006 — January 13, 2012

2012M-28



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**

June 2012

Dear Village 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 Village 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 Village of LeRoy, entitled Financial Condition. 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 Village of LeRoy (Village) is located in Genesee County and has a population of approximately 4,400. The Village is governed by an elected Board of Trustees (Board) comprising four Trustees and a Mayor. The Board is the legislative body responsible for managing Village operations, including establishing appropriate internal controls over financial operations and monitoring finances to maintain sound financial condition. The Clerk-Treasurer prepares the tentative budget based on estimates provided by the department heads, and gives this budget to the Board for review. The Board holds meetings with department heads and a public meeting for taxpayers to provide input before the Board approves the budget.

The Village maintains two operating funds: the general fund and the sewer fund. Its adopted budget for the 2011 fiscal year totaled over \$3.5 million and was funded primarily with real property taxes and user fees.

## **Objective**

The objective of our audit was to examine internal controls over selected financial activities. Our audit addressed the following related question:

- Is the Board sufficiently monitoring the Village's financial condition?

## **Scope and Methodology**

We examined the Village's financial condition for the period June 1, 2006 to January 13, 2012.

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 are 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 Village officials and their comments, which appear in Appendix A, have been considered in preparing this report. Village officials agreed with our recommendations and 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 of Trustees to make this plan available for public review in the Clerk-Treasurer's office.

## Financial Condition

The Board is responsible for adopting realistic budgets, using sound estimates developed by the Village's department heads based on anticipated needs and guided by past financial activity. A basic component of local government budgeting is the prudent use of fund balance, which is the difference between revenues and expenditures accumulated over time. Village officials can legally set aside, or reserve, portions of fund balance to finance future costs for a specified purpose, or can designate the unexpended surplus<sup>1</sup> portion of fund balance to help finance the next year's budget. The Board may retain a reasonable level of unexpended surplus funds, consistent with prudent budgeting practices, as a financial cushion for unforeseen financial circumstances. A well-supported, realistic budget helps ensure that Village residents are not taxed more than necessary to fund operations.

The Board has not adopted reasonably accurate budgets or properly monitored the budget. As a result, the Village has accumulated significant funds that could have been used to reduce the tax levy. Further, the Board has not adopted a policy or developed procedures to address the amount of unexpended surplus funds to be maintained, to determine whether the amount maintained is reasonable, or to specify how the Board expects to use surplus funds. We also found that the Village did not use its debt reserves to offset the cost of annual debt service payments.

Table 1 shows the Village's financial activity over a five-year period:

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<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).

<b>Table 1: Operating Results and Fund Balance</b>					
	<b>FY 2006-07</b>	<b>FY 2007-08</b>	<b>FY 2008-09</b>	<b>FY 2009-10</b>	<b>FY 2010-11</b>
<b>General Fund</b>					
Beginning Fund Balance	\$1,315,907	\$1,468,324	\$1,813,354 <sup>a</sup>	\$2,228,272	\$3,220,353
Actual Revenues	\$3,038,741	\$3,636,882	\$3,250,003	\$3,812,565	\$3,138,109
Actual Expenditures	\$2,886,325	\$3,294,916	\$2,835,085	\$2,820,484	\$2,693,574
<b>Operating Surplus/ (Deficit)</b>	<b>\$152,416</b>	<b>\$341,966</b>	<b>\$414,918</b>	<b>\$992,081</b>	<b>\$444,535</b>
Total Year-End Fund Balance	\$1,468,324	\$1,810,290	\$2,228,272	\$3,220,353	\$3,664,888
Less: Restricted Fund Balance	\$915,182	\$422,751	\$425,757	\$935,811	\$1,748,018
Less: Appropriated Fund Balance for Ensuing FY	\$100,000	\$100,000	\$100,000	\$100,000	\$140,000
<b>Unexpended Surplus</b>	<b>\$453,142</b>	<b>\$1,287,539</b>	<b>\$1,702,515</b>	<b>\$2,184,542</b>	<b>\$1,776,870</b>
Unexpended Surplus as % of Ensuing Year's Appropriations	13%	38%	48%	70%	51%
<b>Sewer Fund</b>					
Beginning Fund Balance	\$956,132	\$1,110,998	\$1,277,711	\$1,446,420	\$1,606,363
Actual Revenues	\$919,203	\$930,461	\$899,937	\$873,161	\$769,851
Actual Expenditures	\$764,337	\$763,748	\$731,228	\$713,218	\$800,230
<b>Operating Surplus/ (Deficit)</b>	<b>\$154,866</b>	<b>\$166,713</b>	<b>\$168,709</b>	<b>\$159,943</b>	<b>(\$30,379)</b>
Total Year-End Fund Balance	\$1,110,998	\$1,277,711	\$1,446,420	\$1,606,363	\$1,575,984
Less: Restricted Fund Balance	\$495,846	\$598,081	\$599,380	\$753,735	\$904,359
Less: Appropriated Fund Balance for Ensuing FY	\$52,005	\$94,130	\$74,446	\$183,869	\$203,465
<b>Unexpended Surplus</b>	<b>\$563,147</b>	<b>\$585,500</b>	<b>\$772,594</b>	<b>\$668,759</b>	<b>\$468,160</b>
Unexpended Surplus as % of Ensuing Year's Appropriations	56%	59%	79%	62%	43%
<sup>a</sup> Includes a prior-period adjustment of \$3,064					

This significant accumulation of funds is due to ongoing operating surpluses, which resulted from the repeated over-estimation of expenditures. Therefore, the appropriated fund balance as shown in Table 1 was largely unused.

Budgeting – For the fiscal years 2006-07 through 2010-11, the general and sewer fund budgets were adopted with planned operating deficits.<sup>2</sup> A planned operating deficit can be a means of reducing necessary taxes by appropriating fund balance for the ensuing year’s operational costs. However, the Village most often incurred surpluses instead of deficits in these two funds, as indicated in Table 2:

<b>Table 2: Planned Deficits and Operating Results</b>					
<b>General Fund</b>	<b>FY 2006-07</b>	<b>FY 2007-08</b>	<b>FY 2008-09</b>	<b>FY 2009-10</b>	<b>FY 2010-11</b>
Planned Deficit	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)
Operating Surplus/ (Deficit)	\$152,416	\$341,966	\$414,918	\$992,081	\$444,535
<b>Sewer Fund</b>					
Planned Deficit	(\$24,500)	(\$52,005)	(\$94,130)	(\$74,446)	(\$183,869)
Operating Surplus/ (Deficit)	\$154,866	\$166,713	\$168,709	\$159,943	(\$30,379)

The primary reason for these surpluses was the over-estimation of expenditures. For the five fiscal years reviewed, the actual general and sewer fund expenditures averaged only 84 percent and 75 percent of the total budgeted appropriations, respectively.

<b>Table 3: Appropriations vs. Expenditures</b>					
	<b>FY 2006-07</b>	<b>FY 2007-08</b>	<b>FY 2008-09</b>	<b>FY 2009-10</b>	<b>FY 2010-11</b>
<b>General Fund</b>					
Budgeted Appropriations	\$3,652,369	\$3,543,279	\$3,396,916	\$3,565,876	\$3,100,420
Actual Expenditures	\$2,886,325	\$3,294,916	\$2,835,085	\$2,820,484	\$2,693,574
<b>Variance</b>	<b>\$766,044</b>	<b>\$248,363</b>	<b>\$561,831</b>	<b>\$745,392</b>	<b>\$406,846</b>
Variance %	21%	7%	17%	21%	13%
<b>Sewer Fund</b>					
Budgeted Appropriations	\$969,583	\$999,088	\$996,713	\$974,029	\$1,082,369
Actual Expenditures	\$764,337	\$763,748	\$731,228	\$713,218	\$800,230
<b>Variance</b>	<b>\$205,246</b>	<b>\$235,340</b>	<b>\$265,485</b>	<b>\$260,811</b>	<b>\$282,139</b>
Variance %	21%	24%	27%	27%	26%

<sup>2</sup> A planned operating deficit occurs when the Board intentionally adopts a budget in which expenditures exceed revenues, with the difference funded by the appropriation of fund balance.

In particular, the appropriations for employee benefits, insurance, and debt service were consistently more than the actual expenditures. Village officials provided no supporting documentation to justify the substantially higher amounts budgeted for these appropriations. The Clerk-Treasurer told us that the employee benefits and insurance appropriations were based on unfilled positions and changes to employee contracts, which are based on the calendar year rather than the Village's fiscal year; and that the debt service appropriations were based on an amortization schedule that may have been incorrect.<sup>3</sup> However, in the adopted budget for the 2011-12 fiscal year, Village officials continued to budget in this same manner. Therefore, we anticipate that the general and sewer funds will continue to experience surpluses similar to those in previous years.

Debt Reserves – The Village has accumulated cash in debt reserves in both the general and sewer funds, which had balances totaling over \$1.2 million at May 31, 2011. Even though the amounts in these reserves equate to 34 percent of the Village's total outstanding debt, Village officials have not charged any expenditures to these reserves to help offset the cost of annual debt service payments. The Village appropriated \$236,000 from the debt reserve in the general fund and \$100,000 from the debt reserve in the sewer fund to finance debt service payments in the 2011-12 fiscal year. However, unless debt service expenditures are charged to the reserves when the accounting records are closed at year end, the balances in the reserves will remain at the same level.

The Board's combined practices of over-budgeting appropriations and maintaining reserves that were not being used resulted in significant public funds being withheld from productive use.

## Recommendations

1. The Board should adopt a policy and develop procedures that address operating surpluses and the use of unexpended surplus funds. Such uses could include, but are not limited to:
  - Increasing necessary reserves to reduce fund balance
  - Financing one-time expenses
  - Reducing property taxes.
2. The Board should use the debt reserves to fund debt service payments.

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<sup>3</sup> At the exit conference the Clerk-Treasurer informed us that, upon further review, she believed that the Village had been using the wrong year's amount for this budget line.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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



# Village of Le Roy

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June 13, 2012

Office of the State Comptroller  
Division of Local Government  
Buffalo Regional Office  
295 Main Street – Suite 1032  
Buffalo, New York 14203-2510

Attn: Mr. Robert Meller, Chief Examiner

Re: Village of LeRoy Financial Condition

Dear Mr. Meller:

Please allow this letter to serve as the Village's response and corrective action plan for the Report Examination from your office for the period June 1, 2006 to January 13, 2012.

Reserves – General Fund – Reserves created were: Improvements, Equipment, Debt service, Employee benefits, and Retirement funds. The debt reserves were funded through the sale of property related to the water fund, fund ceased to exist as of 2004. The debt for outstanding water debt is budgeted and paid by the General Fund. This debt is not callable or refundable and the purpose of the reserve is to fund principal and interest payments through maturity for this water debt. We appreciate the comments from the audit, pointing out our error to correctly charge the expenditures to the reserve funds and will properly address this.

Sewer Reserve – the debt was funded through litigation. Annual payments received by the Village were to be utilized to avoid significant increases in sewer rates. Once the settlement payments ceased in 2009 the Board funded the sewer debt reserve fund to continue avoid increasing rates. The debt is financed through Environmental Facilities Corporation and is not callable debt.

The Village adopted budget reflects use of \$236,000 of \$725,460 debt reserve in the General Fund and \$100,000 of the \$500,000 debt reserve in the Sewer Fund.

Appropriations for employee benefits - were based on unfilled positions, those positions have been filled or excluded from the 2012-2013 Budget, therefore we should not experience a surplus.

In response to the recommendations cited our response is as follows:

1.
  - A. The Village increase reserve funds in fiscal year ending May 31, 2011 per the response above.

- B. Paying off debt - the Village has worked with fiscal advisors firm and at current time none of the Village debt is callable and would meet requirements for refund per New York State finances.
  - C. Financing one time expenditures – the Village Board would prefer to fund reserves rather than utilize surplus in that manner.
  - D. Reducing property taxes – The Village current property tax rate for fiscal year ending May 31, 2012 is \$.04 (four cents) higher than the rate effective in 1994, given the significant increases in retirement, health, and operating expenses the Village Board policy is to maintain a stable tax rate and fund appropriately reserves. Also, by creating reserve funds we are able to continue to keep the tax rate at a reasonable level.
2. See responses above.

The Village Board will continue to be fiscally responsible during these difficult economic times and in no way jeopardize the stability of the Village.

Sincerely,



Greg Rogers,  
Mayor

## **APPENDIX B**

### **AUDIT METHODOLOGY AND STANDARDS**

To accomplish the objective of the audit and obtain valid audit evidence, we interviewed appropriate Village officials and employees, tested selected records, and examined pertinent documents for the period June 1, 2006 to January 13, 2012. Our procedures included the following steps:

- We obtained an understanding of the Village's internal controls related to the budget development and monitoring process.
- We obtained information related to the Board's financial oversight and reviewed the minutes of Board meetings.
- We analyzed revenue and expenditure trends and the changes in fund balance of the general and sewer funds for fiscal years 2006-07 through 2010-11.
- We compared budgeted revenues and appropriations to actual revenues and expenditures.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## APPENDIX C

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