



Village of Lyons Falls Financial Management

Report of Examination

Period Covered:

June 1, 2012 — August 31, 2013

2013M-393



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2014

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 Lyons Falls, entitled Financial Management. 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 Lyons Falls (Village) is located in the Towns of Lyonsdale and West Turin in Lewis County and has approximately 570 residents. The Village provides various services to its residents including fire protection and ambulance services, street maintenance, snow removal and general government support. The general fund's 2013-14 budget appropriations were approximately \$352,000, funded primarily by real property taxes and State aid.

The Village is governed by four Trustees and a Mayor, which comprises the elected Board of Trustees (Board). The Board is responsible for the Village's general management and control of financial affairs. The Mayor serves as chief executive officer. The Treasurer¹ serves as chief financial officer.

Objective

The objective of our audit was to review the Village's financial management practices. Our audit addressed the following related question:

- Is the Board adequately managing the level of unexpended surplus funds² in the general fund?

Scope and Methodology

We assessed the Village's financial management practices for the period June 1, 2012 through August 31, 2013. In addition, we extended our review of financial trends back to the 2008-09 fiscal year.

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 Village 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

¹ The Village has a separately appointed Clerk and a Treasurer.

² 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).

generally agreed with our recommendations and indicated they plan 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 Clerk's office.

Financial Management

An important part of budgeting for local governments is the prudent use of fund balance.³ Village officials can legally set aside or restrict portions of fund balance to finance future costs for a specified purpose, designate a portion to help finance the next year’s budget or retain a portion as a financial cushion for unforeseen financial circumstances. Therefore, the Board should adopt a policy addressing the level of unexpended surplus funds to be maintained and specifying how the Board expects to use the surplus. A well-supported, realistic budget helps ensure that Village residents are not taxed more than necessary to fund operations.

The unexpended surplus funds in the Village’s general fund increased nearly \$200,000 (45 percent) over the past five years to almost \$640,000 as of May 31, 2013. As a result, the general fund’s unexpended surplus funds in 2012-13 reached 182 percent of the next year’s appropriations.

Table 1: Analysis of Fund Balance – General Fund

	2008-09	2009-10	2010-11	2011-12	2012-13
Total Year-End Fund Balance	\$737,084	\$792,086	\$852,390	\$781,519	\$871,130
Less: Restricted Fund Balance ^a	\$272,039	\$207,495	\$266,859	\$190,571	\$203,917
Less: Appropriated Fund Balance	\$25,000	\$25,000	\$40,000	\$30,000	\$27,500
Total Unexpended Surplus Funds	\$440,045	\$559,591	\$545,531	\$560,948	\$639,713
Unexpended Surplus as % of Next Year’s Appropriations	125%	159%	152%	160%	182%

^a We adjusted the designations of fund balance to reflect three reserves (i.e., fire equipment, street vehicle and paving reserves) that were not reflected in the Village’s annual financial report.

Unexpended surplus funds increased from 2008-09 through 2012-13 despite the Board adopting budgets that indicated that the Board planned to use some of the fund balance to partially fund operations. Village budgets included planned operating deficits in each of these years. However, from 2008-09 through 2012-13 Village operations generated a combined operating surplus totaling more than \$187,000 eliminating any need for using appropriated fund balance except in 2011-12.

Table 2: Planned Deficits and Operating Results – General Fund

	2008-09	2009-10	2010-11	2011-12	2012-13
Planned Deficit	(\$15,000)	(\$25,000)	(\$25,000)	(\$40,000)	(\$30,000)
Actual Operating Surplus (Deficit)	\$53,822	\$54,952	\$60,305	(\$70,866)	\$89,607

³ Fund balance represents resources remaining from prior fiscal years that can be used as funding sources in the next year’s budget to reduce the amount of revenues needed to be raised from other sources.

The 2011-12 operating deficit resulted because Village officials purchased equipment totaling about \$174,700⁴ that was not included in the Board-adopted budget. Otherwise, the Village would have generated an operating surplus in that year as well.

The Treasurer provided the Board with information to develop accurate budgets including prior years' operating results, updated budgetary estimates and current year-to-date operating results. However, the information provided did not include an estimate of fund balance remaining at year end, which helps determine how much is available to fund next year's operations.

We found estimated revenues were reasonable compared with actual revenues received. However, the Board overestimated budget appropriations when preparing its 2010-11 and 2012-13 annual budgets. Actual expenditures for 2010-11 and 2012-13 were 22 percent less than the amounts budgeted. For example, the 2010-11 and 2012-13 Board-adopted budgets included estimated storm sewer contractual expenditures totaling \$10,000 each year even though actual expenditures totaled only \$820 for the two years combined, or \$19,180 less than the amounts budgeted.⁵

The Mayor told us the Board prefers to overestimate budget appropriations as a way to protect the Village from unanticipated costs and expenditures. While conservative budgeting is desirable, this approach led to annual operating surpluses and the continued accumulation of unexpended surplus funds that exceeded the amounts needed to finance Village operations for an entire fiscal year. As a result, Village officials levied and collected more taxes than necessary to fund Village operations.

Village officials indicated that they have taken steps to begin addressing the general fund's excessive unexpended surplus funds. For example, the Board adopted a fund balance policy which states that fund balance is not to exceed 25 percent of budgeted appropriations. In addition, the Board established a contingency and tax stabilization reserve and funded it with \$35,000 of unexpended surplus funds shortly after the end of our audit period. Lastly, to assist with the Village's long-term plans to address the surplus, the Board entered into an agreement with the Development Authority of the North Country (DANC). Under this agreement DANC will assist the Board with developing a Village asset management plan to address future capital needs, which includes establishing additional reserves.

⁴ The Village made two large equipment purchases, a fire truck costing \$92,570 and a plow truck costing \$82,162.

⁵ In 2011-12, the Board also budgeted \$10,000 for storm sewer contractual expenditures, but actual expenditures totaled only \$390.

Recommendations

1. The Board should adopt budgets with realistic estimates of anticipated expenditures and available appropriated fund balance.
2. The Board should ensure that the Treasurer provides budgetary information that includes a breakdown of estimated fund balance expected to be available at the close of the current fiscal year.
3. The Board should consider using the general fund's unexpended surplus in a manner that benefits Village taxpayers. Such uses could include, but are not limited to:
 - Reducing property taxes,
 - Increasing or establishing necessary reserves,
 - Financing one-time expenditures and
 - Paying off debt.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

The Local officials' response to this audit can be found on the following page.

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March 20, 2014

Rebecca Wilcox, Chief Examiner
Office State Comptroller Regional Office
State Office Building, Room 409
333 E. Washington Street
Syracuse, NY 13202-1428

Re: Village of Lyons Falls Audit Response Letter

Audit period covered: June 01, 2012- August 31, 2013

Dear Ms. Rebecca Wilcox:

This letter is to serve as the official acknowledgement of the receipt and review of the Draft Audit Report received by the Village of Lyons Falls on March 07, 2014. This letter also confirms that the Mayor and Board of Trustees agree with the draft audit as presented by your office.

Our Village is having a special election on April 1st regarding the approval of a bond to repair and expand our Waste Water Treatment System. Also the Asset Management Plan that we are involved with is near completion. Once these important events are done and we have received the final audit we will be submitting a Corrective Action Plan (CAP) in accordance to the 90 day requirement.

The audit from your office came at an opportune time. We have been working diligently the past four years to improve our operations and governance. Our Village board appreciates the fiscal oversight that the Office of the State Comptroller has provided to us. The audit definitely has and will improve our operations and governance.

Respectfully submitted,

Catherine Liendecker
Mayor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed appropriate Village officials and employees, tested selected records and examined pertinent documents for the period June 1, 2012 through August 31, 2013. We extended our review of financial trends back to fiscal year 2008-09. Our examination included the following:

- We reviewed the Village's financial records and reports, including budgets and annual reports, and completed an analysis of fund balance.
- We analyzed the changes in fund balance and variances in budget-to-actual revenues and expenditures.
- We calculated operating deficits and/or surpluses and compared changes in fund balance to the real property tax levies.
- We reviewed Board minutes for evidence of the Board's budgeting practices and budget monitoring process.
- We interviewed Board members to determine what information the Board was provided with during the year to monitor the budget and what information it was provided with at budget time.
- We reviewed Board minutes, Board resolutions and referendums and analyzed the activity in the Village's three reserve funds.

We conducted this performance audit in accordance with 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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