



Village of Green Island

Water Fund Financial Condition

Report of Examination

Period Covered:

June 1, 2012 – May 31, 2015

2015M-237



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 2015

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 Green Island, entitled Water Fund 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 New York State 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 Green Island (Village) is located in Albany County and has a population of approximately 2,600 residents. The Village provides various services to its residents, including water and sewer services, street maintenance, snow removal, police, fire and general government support. The Village's general fund budget for the 2014-15 fiscal year was \$3,147,368, which was funded primarily with property taxes and State aid. The Village's water fund's budgeted appropriations for the year were \$637,125 and were funded primarily through user fees. The water fund has had a deficit fund balance for an extended period of time, including a \$907,036 deficit as of May 31, 2015.

The Village Board (Board) is composed of six elected Trustees and an elected Mayor who serves as the Village's chief executive officer. The Board is the legislative body responsible for the general management and control of the Village's financial affairs. It is also responsible for developing and adopting the annual budget for the general, water and sewer funds and establishing financial policies and procedures. The Board has the power to levy taxes on real property located in the Village, set water and sewer rates and issue debt. The Board appoints the Treasurer, who is the chief fiscal officer and is responsible for receiving, disbursing and maintaining custody of Village funds, maintaining the accounting records and providing financial reports to the Board. The Chief Operating Officer oversees day-to-day operations of the Village and serves as the Executive Assistant to the Mayor.

Objective

The objective of our audit was to evaluate the financial condition of the Village's water fund. Our report addressed the following related question:

- Did the Board adopt realistic budgets that were structurally balanced and properly manage the level of fund balance in the water fund?

Scope and Methodology

We examined the financial condition of the Village's water fund for the period June 1, 2012 through May 31, 2015.

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 generally 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 to make this plan available for public review in the Clerk's office.

Water Fund Financial Condition

A key measure of the water fund's financial condition is its level of fund balance, which is the difference between revenues and expenditures accumulated over time. When maintained at reasonable levels, fund balance provides cash flow and can be used to help finance the next fiscal year's operations. Therefore, it is essential that the Board adopt structurally balanced budgets that contain realistic appropriations and the resources available to fund them. Village officials should ensure the level of fund balance maintained is reasonable to provide for unanticipated contingencies that may arise throughout the year. A contingency appropriation may be added to the Village budget to provide a cushion or safety net for unexpected events or when budget estimates prove unfavorable (e.g., when actual expenditures must exceed appropriations); however, the amount that can be budgeted for contingencies is limited to 10 percent of the budget.¹ A multiyear financial and capital plan helps a local government assess expenditure commitments, revenue trends, financial risks and the affordability of new services and capital improvements.

The water fund balance continues to be in a deficit position. For the past three years, the Board has adopted budgets that generally covered ongoing operations even though there were favorable and unfavorable revenue and expenditure variances during this period. However, the overall trend for the water fund has been a long term decline from a deficit of \$79,588 as of May 31, 1989 to a deficit of \$907,036 as of May 31, 2015, which is equal to 142 percent of budgeted appropriations for 2014-15. Because of the fund's fiscal stress, the fund has experienced cash flow problems forcing it to repeatedly borrow money from the general and sewer funds; the total balance of the outstanding interfund loans was \$1,198,495 as of May 31, 2015. Because the interfund loans have not been repaid, funds belonging to the general and sewer fund have been improperly retained by the water fund, creating an interfund obligation that the water fund does not have adequate cash to repay. Furthermore, the Board has not developed a multiyear financial or capital plan to address the water fund balance deficit, aging infrastructure or the repayment of interfund loans. The 2012-13, 2013-14 and 2014-15 adopted budgets contained contingency appropriations that exceeded the 10 percent contingency appropriation limit by \$24,081, \$27,503 and \$1,834, respectively.

Deficit Fund Balance — The water fund balance has been in a deficit position since at least 1989. However, the Board has not implemented

¹ New York State statute sets the maximum appropriation for contingencies at 10 percent of other budgeted appropriations (excluding debt service and judgments).

a plan to eliminate the deficit and restore the fund to a fiscally stable position.² It had a \$996,049 fund balance deficit as of June 1, 2012 and, as a result of operating surpluses, the fund balance deficit amount decreased to \$808,176 and \$764,507 as of May 31, 2013 and 2014, respectively. However, because the water fund realized an operating deficit in 2014-15, the balance declined to a deficit of \$907,036 as of May 31, 2015.

Figure 1: Water Fund – Operating Results and Fund Balance			
	2012-13	2013-14	2014 -15
Revenues	\$662,653	\$566,526	\$584,771
Expenditures	\$474,780	\$522,857	\$727,300
Operating Surplus/(Deficit)	\$187,873	\$43,669	(\$142,529)
Beginning Fund Balance (Deficit)	(\$996,049)	(\$808,176)	(\$764,507)
Ending Fund Balance (Deficit)	(\$808,176)	(\$764,507)	(\$907,036)

From 2012-13 through 2014-15 actual revenues and expenditures varied from the Board adopted estimates on an inconsistent basis. Actual revenues exceeded estimated revenues by 10 percent in 2012-13 but were less than the estimated revenues for 2013-14 and 2014-15 by 11 percent and 8 percent. Actual expenditures were less than appropriations in 2012-13 and 2013-14 by 21 percent and 18 percent but they exceeded appropriations by 14 percent in 2014-15.

Figure 2: Budget-to-Actual Comparison			
	2012-13	2013-14	2014-15
Estimated Revenues	\$602,393	\$637,070	\$637,125
Actual Revenues	\$662,653	\$566,526	\$584,771
Variance	\$60,260	(\$70,544)	(\$52,354)
Variance Percentage	10%	(11%)	(8%)
Budgeted Appropriations	\$602,393	\$637,070	\$637,125
Actual Expenditures	\$474,780	\$522,857	\$727,300
Variance	\$127,613	\$114,213	(\$90,175)
Variance Percentage	21%	18%	(14%)

In 2012-13, the water fund realized \$60,260 more revenue than budgeted and expended \$127,613 less than appropriated, resulting in a \$187,873 operating surplus. The water fund received \$35,931 more in water sales, service and interest revenue than anticipated and received \$24,329 more in State and federal disaster aid than was in the budget. In addition, the Board expended \$127,613 less than appropriated mainly because the Village did not use \$70,049 of the

² Since May 31, 1989 the water fund balance has been in a deficit at the end of every fiscal year and has ranged from a deficit of \$79,588 as of May 31, 1989 to \$1,419,161 as of May 31, 2008.

\$73,427 contingency appropriation and expended \$40,336 less than it appropriated for water administration. We also noted the amount the Board budgeted for contingencies exceeded the allowable limit of \$49,346 by \$24,081. The Treasurer stated that Village officials developed the annual contingency appropriation by subtracting budgeted appropriations from budgeted revenues and were not aware of the limit on contingency appropriations.

In 2013-14, the water fund collected \$70,544 less revenue than budgeted; however, it also expended \$114,213 less than appropriated, resulting in a \$43,669 operating surplus. For 2013-14, the Board increased the revenue estimate for water sales to \$600,000, based on the 2012-13 water sales revenue of \$596,662. However, 2013-14 water sales revenue was only \$525,602, causing the Village to realize \$74,398 less in revenue than budgeted. This occurred because water consumption increased in 2012-13 but decreased in 2013-14. Village officials did not identify the cause of the increase in 2012-13 and assumed that the increased consumption from 2012-13 would continue in 2013-14. The water fund expended \$114,213 less than appropriated mainly because the Village did not use \$59,830 of the \$79,769 contingency appropriation and expended \$20,706 and \$16,554 less than what was appropriated for water administration and water purification respectively. Finally, the amount the Board budgeted for contingencies again exceeded the allowable limit of \$52,266 by \$27,503

In 2014-15, the water fund realized \$52,354 less revenue than budgeted and expended \$90,175 more than appropriated, causing a \$142,529 operating deficit. Revenue was less than anticipated because water sales revenue totaled \$541,824 and the Board again included a \$600,000 revenue estimate for water sales even though the 2013-14 revenue was only \$525,602. Additionally, for 2014-15, the Board did not budget for \$163,480 for roof repairs to the water department building. According to the Treasurer and Chief Operating Officer, they were aware of the pending roof repairs but did not include an appropriation in the 2014-15 budget because they intended to delay the repairs until 2015-16. However, the declining condition of the roof made the repairs necessary in 2014-15. Although the unbudgeted roof repairs cost \$163,480, the total overexpenditures for the fund were only \$90,175 mainly because \$34,779 of the \$54,684 of contingency appropriations were not used. Also, the amount the Board budgeted for contingencies again exceeded the allowable limit by \$1,834. In addition, expenditures were less than appropriations for water purification, employee benefits and water administration contract expenditures by \$11,419, \$15,776 and \$10,495, respectively.

The Board's budgetary practices have resulted in total annual revenues and expenditures exceeding estimates in some years and

being less than estimates in others, causing the fund balance deficit to decrease in 2012-13 and 2013-14, but then increase in 2014-15. As a result, the water fund lacks a financial cushion for unanticipated expenditures or revenue shortfalls and will have limited flexibility in the event of unforeseen circumstances, such as the roof repairs that were necessary in the 2014-15 year.

Interfund Loans — General Municipal Law allows municipalities to temporarily advance moneys from one fund to another with certain restrictions. When Village officials loan money between funds, the loans are to be repaid by the end of the fiscal year in which the loans are made. Because of the fund balance deficits in the water fund, the water fund experienced cash flow problems. As a result, the general and sewer funds have been loaning money to the water fund for an extended period of time and the water fund has not been repaying the loans in a timely manner. As of June 1, 2012, the water fund owed the general fund \$347,860 and the sewer fund \$911,772. The Village did not make any additional loans from the general or sewer funds to the water fund during our audit period and repaid a portion³ of the loans from the general fund. As a result, the outstanding interfund loans from the general and sewer funds were \$286,723 and \$911,772, as of May 31, 2015.

Because the year-end water fund cash balances were \$355,022 for 2012-13, \$354,367 for 2013-14 and \$263,307 for 2014-15, they were insufficient to repay the amounts due to the general and sewer funds. If the general and sewer funds had not made interfund loans to the water fund in prior years, the water fund would not have had sufficient cash to pay its obligations and would have been forced to seek alternate short-term financing sources.

Village officials are aware that the water fund needs to repay the general and sewer funds. The Treasurer and Chief Operating Officer stated the water fund has not repaid the interfund loans because the fund does not have sufficient cash, and the system's infrastructure is old and will need repairs as it continues to age. These are not appropriate reasons for failing to repay the loans because it is not the responsibility of taxpayers funding the general fund or customers paying for sewer services to finance the operations and capital needs of the water fund. The failure to repay the outstanding loans could eventually cause cash flow problems and fiscal stress in the general and sewer funds if those funds were to incur unanticipated costs.

Multiyear Financial and Capital Planning — Village officials have not developed a comprehensive, written multiyear financial or capital

³ The water fund repaid the general fund \$18,567, \$17,058 and \$25,512 in 2012-13, 2013-14 and 2014-15, respectively.

plan. Such a plan would be a useful tool for the Board to address the water fund balance deficit, aging infrastructure and repayment of interfund loans. Although Village officials have not developed multiyear plans, the Treasurer and Chief Operating Officer told us Village officials try to identify and consider future capital needs on an ongoing basis. For example, Village officials conducted a study of the roofs on Village buildings in November 2011 and learned that the water department's roof needed to be replaced. The Board discussed delaying the roof replacement until 2015-16, with the hope of accumulating enough funds over the next few years but did not establish or fund a reserve or take other appropriate actions to accumulate such funds. Additionally, the roof deteriorated to a degree that it had to be replaced in 2014-15.

The longstanding deficit in the water fund continues to place stress on the fund. Furthermore, the resulting interfund loans from the general and sewer funds may place the Village at risk of having to borrow money if a substantial unplanned outlay is needed by the water fund, thereby further eroding financial condition. Without a comprehensive financial and capital plan, Village management is missing an important tool to identify future spending needs and the methods to finance them.

Recommendations

The Board should:

1. Develop a financial plan to alleviate the fiscal stress of the water fund. This plan should address the water fund balance being returned to a surplus position and repayment of loans from the general and sewer funds.
2. Adopt budgets that contain realistic revenue estimates and appropriations based on past revenue and expenditure trends, anticipated future needs and other relevant information.
3. Ensure appropriations for contingencies are within the legal limit of 10 percent of other appropriations excluding debt service and judgments.
4. Adopt a multiyear financial and capital plan for the water fund. The plan should address the water fund balance deficit, aging infrastructure, repayment of interfund loans and the Board's plans for financing such costs.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

ELLEN M. McNULTY-RYAN
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OFFICE OF THE MAYOR

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VILLAGE OF GREEN ISLAND
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December 22, 2015

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396

Dear Mr. Leonard,

This correspondence is the Village's response to the Report of Examination on the Financial Condition of the Village's Water Fund for the June 1, 2012 – May 31, 2015 period received by email on December 1, 2015. This is not our Corrective Action Plan (CAP) in response to your recommendations. That document will require much more time to develop and will be filed with OSC within 90 days of the public release of the report.

While we generally agree with the contents of the report we do take issue with some of the wording in the "Objective of the Audit" and item number two in the "Recommendations". The use of the word "realistic" could imply that we have not devoted much time or effort in our budget process. This is simply not the case. Our management team initiates the budget process in January and concludes the process in the third week of April each fiscal year. During this timeframe we hold meetings with the department heads and Board members and closely evaluate and determine each line item based on those conversations in addition to historical data and future projections.

The "Deficit Fund Balance" and "Interfund Loans" sections of the report are issues that have existed since the late 1980's. These are issues that the current management team and Board inherited and have been working on to correct as was explained to the OSC auditor's. The "Multiyear Financial and Capital Planning" section of the report states that we do not have a written and Board adopted multiyear financial or capital plan. While this is a correct observation, we do address these issues on an on-going basis. These three areas of concern will be addressed in detail in our CAP response to OSC's recommendations within ninety days of the release of your official report.

We would like to thank the representatives of your office, namely [REDACTED] [REDACTED] for the professionalism and courtesy displayed while performing their field work and subsequent follow-up.

Sincerely,

[REDACTED]
Ellen McNulty-Ryan
Mayor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to examine the Village's water fund for the period June 1, 2012 through May 31, 2015. To accomplish our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We compared annual update document (AUD) balances to the accounting records and supporting documentation to determine if the amounts reported were accurate, up-to-date and supported.
- We interviewed Village officials regarding the condition of the Village's water system infrastructure and reviewed gallons produced to gallons sold reports to understand the infrastructure issues faced by the Village.
- We interviewed Village officials and reviewed documentation including budget-to-actual reports and general ledger reports to determine the causes of variances from budget estimates to actual results.
- We interviewed Village officials regarding interfund loans and reviewed prior OSC audit reports and historical data in the AUDs to quantify the interfund loan balances prior to our scope period. Additionally we reviewed the financial statements of the Village, as well as interfund loan general ledger summaries provided by the Treasurer to quantify the interfund loans outstanding during our scope period.
- We interviewed Village officials and reviewed historical data in the AUDs and the financial statements of the Village to determine the reasons the deficit fund balance has not been reduced.
- We interviewed Village officials and reviewed the Village roof survey completed in 2011 and reviewed documents to understand the Village's water department roof project.
- We interviewed Village officials and reviewed Board minutes to determine if the Village had a long-term financial or capital plan.

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

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