



Town of Halfmoon

Financial Condition of the General and Highway Funds

Report of Examination

Period Covered:

January 1, 2011 — September 30, 2012

2013M-55



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 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 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 Halfmoon, entitled Financial Condition of the General and Highway Funds. 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 Halfmoon (Town) is located in Saratoga County and has a population of approximately 21,500. The Town is governed by a Board that comprises a Town Supervisor (Supervisor) and four Councilmen. The Supervisor serves as the chief executive officer, chief fiscal officer, and budget officer. The Town has an accounting office that is managed by a Director of Finance.

The Town accounts for numerous services and financial activities in its general fund, including public safety, ambulance service, parks and recreational programs, and general government services. The highway fund accounts for costs related to street maintenance, snow removal, and other highway-related activities. These services and programs are funded by several revenue sources: the primary one being sales tax revenue that is distributed by Saratoga County. While property taxes are levied to help finance water district fund operations, the Town has not levied real property taxes to support its general and highway funds in many years. The Town's general fund budget for the 2012 fiscal year was \$7.3 million; the budget for the highway fund was about \$3 million.

Objective

The objective of our examination was to evaluate the Town's financial condition of the general and highway funds. Our audit addressed the following question:

- Does the Board adopt realistic budgets, routinely monitor financial operations, and take appropriate actions to maintain the Town's financial stability?

Scope and Methodology

We examined the financial condition of the general and highway funds of the Town for the period January 1, 2011, to September 30, 2012. We extended our review back to 2007 to review financial and budgeting trends.

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 C 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. Except as specified in Appendix A, Town officials generally agreed with our

recommendations and indicated they planned to take corrective action. Appendix B includes our comments on issues raised in the Town's response letter.

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.

Financial Condition

The Board is responsible for making sound financial decisions that are in the best interests of the Town, the population it serves, and the taxpayers who fund the Town's operations and programs. This responsibility requires Board members to develop and adopt realistic and balanced budgets that provide recurring revenues to finance recurring expenditures. The annual budget is expected to provide a reasonable estimate of appropriations, revenues, and other financing sources that may include the use of accumulated fund balance. The Board also should prepare and monitor a multiyear financial plan that projects future revenues and expenditures and prepares for the fiscal challenges of future years.

We found that the Board did not develop budgets with realistic estimates of revenues. In recent years, the Board over-estimated the sales tax revenues and incorrectly estimated the amount of fund balance that would be available to finance operations. After the Board appropriated a portion of fund balance for 2012 operations, the general fund had a remaining deficit unreserved fund balance of approximately \$748,000, and the highway fund had a deficit unreserved fund balance of approximately \$837,000.¹ Also, the Board did not employ long-term financial planning, which would have helped it identify historical budgeting trends.

General and Highway Funds

While preparing the budget, it is important for the Board to develop realistic estimates of revenues and expenditures, along with an estimate of how much fund balance will be available at fiscal year-end. The Board and Town officials must have current and accurate information when estimating budgeted revenues. They also should use historical data, such as prior years' actual results of operations, to guide them in determining whether revenues are reasonable.

The Town does not levy a real property tax to fund the activities accounted for in either the general or highway fund. Rather, these services and programs are funded primarily by the Town's share of sales tax revenue distributed by Saratoga County. For example,

¹ 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. For our discussion of the general fund's and highway fund's financial condition, we will use the term "unreserved fund balance" 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).

the annual budgeted sales tax revenue averages approximately 53 percent of total revenues for the general fund and approximately 93 percent for the highway fund. Because of this dependency on sales tax revenue, it is important that Town officials determine realistic estimates of anticipated sales tax receipts when they are developing the budget, especially during a period of economic downturn.

In recent years, the estimates were not realistic. For example, from 2009 to 2011, Town officials over-estimated sales tax revenues in the general and highway funds (Table 1), while maintaining expenditures within the limits of budgeted appropriations.

Fiscal Year	General Fund			Highway Fund			Total Sales Tax Shortfall ^a
	Budget	Actual	Under/Over Budget ^a	Budget	Actual	Under Budget ^a	
2009	\$3,500,000	\$2,329,419	(\$1,170,581)	\$2,289,500	\$2,168,094	(\$121,406)	(\$1,291,987)
2010	\$3,000,000	\$2,691,230	(\$308,770)	\$2,200,000	\$2,180,273	(\$19,727)	(\$328,497)
2011	\$3,000,000	\$3,530,075	\$530,075 ^b	\$2,500,000	\$1,580,070	(\$919,930)	(\$389,855)

^a Numbers that appear within parentheses indicate negative values.
^b During 2011, the Board reallocated \$920,000 in sales tax revenue from the highway fund to the general fund. If it had not reallocated this amount, the actual sales tax revenue in the general fund would have been \$2,610,075, a shortfall of almost \$390,000.

In addition to overestimating sales tax revenues, the Board also appropriated more fund balance in the budget for both the general and highway funds than was available (Table 2). During the 2011 budget process, the Board appropriated nearly \$1.5 million of unreserved fund balance in the general fund to finance 2011 operations. However, Town officials had miscalculated the amount of unreserved fund balance in the general fund at the end of 2010. Consequently, the Board was unaware that there was only about \$1 million available at the end of 2010 for appropriation in the 2011 budget, causing a \$401,569 shortfall. During the 2012 budget process, the Board continued to appropriate fund balance that was unavailable. Similar to the general fund, during the budget process from 2009 to 2011, the Board appropriated more fund balance in the highway fund than was available. This was even more problematic for the highway fund because it actually had an unreserved fund deficit at the end of 2011.

Table 2: Appropriation of Fund Balance*		
	General Fund	Highway Fund
2009 Year-end unreserved fund balance	\$2,531,400	\$84,350
Appropriated in the 2010 budget	\$1,443,103	\$399,694
Remaining unreserved fund balance	\$1,088,297	(\$315,344)
2010 Year-end unreserved fund balance	\$1,062,168	\$299,687
Appropriated in the 2011 budget	\$1,463,737	\$234,782
Remaining unreserved fund balance	(\$401,569)	\$64,905
2011 Year-end unreserved fund balance	\$247,184	(\$779,103)
Appropriated in the 2012 budget	\$994,739	\$57,987
Remaining unreserved fund balance	(\$747,555)	(\$837,089)

* Numbers that appear within parentheses indicate negative values.

The combination of inaccurate revenue estimates along with the appropriation of more fund balance than was available caused the financial condition of these funds to decline (Table 3).

Table 3: Year-End Unreserved Fund Balance			
Fiscal Year	General Fund	Highway Fund	Total
2007	\$4,579,456	\$440,391	\$5,019,847
2008	\$3,961,865	\$337,724	\$4,299,589
2009	\$2,531,400	\$84,350	\$2,615,750
2010	\$1,062,168	\$299,687 ^a	\$1,361,855
2011	\$247,184	(\$779,103)	(\$551,919)

^a The increase in the highway fund's 2010 fund balance was due to budgeted capital highway improvements which were not made. The Town had budgeted \$400,000 in this item, but only made about \$40,000 in actual expenditures.

Preliminary 2012 financial information from the Town indicates that sales tax revenue for both the general and highway funds will be in line with the amounts budgeted. For 2012, an operating deficit of \$464,000 for the general fund is predicted (approximately \$995,000 was planned), and a \$57,000 operating deficit is expected for the highway fund (approximately \$58,000 was planned). However, this still leaves the highway fund with an unreserved fund balance deficit of \$837,000, which will need to be addressed by the Board in future budgets.

In addition to the deficit fund balance in the general and highway funds, the Board needs to address a cash liability incurred by the highway fund. To provide sufficient cash flow for highway operations, the Board authorized cash transfers from other Town funds. As a result, as of December 31, 2011, the highway fund owed more than \$1.3 million to other Town funds.

Looking ahead to 2013 operations, Town officials were able to significantly reduce the 2013 general fund budget by removing an annual \$1 million expenditure for emergency medical services from the budget.² Although the absence of this expenditure from the general fund budget may improve the general fund's financial condition, the Board still needs to alleviate the \$837,000 deficit in the highway fund and repay the more than \$1.3 million that this fund still owes to other Town funds. If the Board does not monitor actual revenue levels and develop more accurate estimations of the amounts of fund balance that will be available to fund annual operations, the Town's financial condition could worsen.

Multiyear Financial Plan

Multiyear financial planning is a tool for local governments to improve the budget development process and financial planning. Planning on a multiyear basis enables Town officials to identify developing revenue and expenditure trends, establish long-term priorities and goals, and consider the impact of near-term budgeting decisions on future fiscal years. It also allows officials to assess the merits of alternative approaches to financing Town operations and programs, such as the use of surplus fund balance, and establishing and using reserves. Any long-term financial plan should be monitored and updated on a continuing basis to provide a framework for preparing budgets and to ensure that decisions are guided by current and accurate information.

Though the Board is engaged in future planning that considers the Town's future residential development and infrastructure needs, it has not developed a detailed multiyear financial plan. Town officials should develop and regularly update a realistic multiyear financial plan and ensure that it includes a review of historical trends, an analysis of current financial data, and consideration of ongoing economic conditions. A well-designed plan can assist the Board in making timely and informed decisions about the Town's operations, services, and programs, and their potential funding sources.

Recommendations

1. The Board should adopt budgets with realistic estimates for revenues that are based on historical and current information and develop realistic estimates for available fund balance.
2. Town officials should implement a plan to eliminate the fund balance deficit of the highway fund.
3. Town officials should closely monitor the general and highway funds and make appropriate amendments if revenue sources are insufficient to fund the Town's planned operations.

² The service provider that the Town formerly contracted with has incorporated and now operates under its own taxing authority.

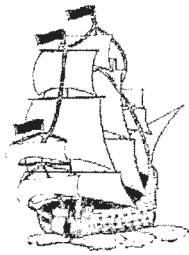
4. Town officials should develop a multiyear financial plan that establishes priorities and goals, considers revenue and expenditure trends, and plans for the future use of reserve funds.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

Supervisor
Mindy A. Wormuth

Council
Walter F. Polak
John Wasielewski
Paul Hotaling
Craig Hayner



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July 18, 2013

Office of State Comptroller
Attn: [REDACTED]
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Dear Mr. [REDACTED]

Enclosed is the Town of Halfmoon's "written audit response" to the Comptroller's draft audit report. This letter is the sole, unified response from the Town of Halfmoon. This letter meets the Comptroller's other criteria for the Town's official response, because it is: 1) signed by the chief elected local official; 2) mailed on official stationery, and; 3) describes the Town's position regarding the audit findings.

The Town Board of the Town of Halfmoon is committed to taking positive action regarding the Comptroller's audit report. As elected officials, we look forward to continuing to work with the Comptroller's Office in the spirit of continuous improvement regarding the Town's finances and financial practices.

Sincerely,

Mindy Wormuth
Town Supervisor

Background and Audit Purpose

This is the Town of Halfmoon's response to the State of New York, Office of the State Comptroller's report on the "Financial Condition of the General and Highway Funds". The purpose of the audit as explained by the Comptroller's Office follows.

"The Comptroller oversees the fiscal affairs of local governments ... in part, through our audits which identify opportunities for improving operations and Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets."

Financial Controls and Procedures

The Comptroller, "evaluated the application controls and procedures over the computerized accounting system to help ensure that the information produced by such systems was reliable." The Comptroller's audit did not produce any findings nor did it make any recommendations to improve the operations and controls of the Town of Halfmoon finance office. Officials of the Town are pleased, but not surprised that the audit did not reveal any shortcomings with the Town's financial controls and procedures. This fact supports Town Officials' assertions that the public's trust has been earned and is deserved for their consistently good management of public funds.

See
Note 1
Page 15

Planned Use of Fund Balance

The Town undertook two major capital projects with the expectation that it would use a portion of its accumulated fund balance to finance the projects. The two capital projects are: 1) construction of the Halfmoon Town Park and, 2) construction of the Halfmoon Town Hall. The Town started these projects with the confidence provided by its significant fund balance. In short, the Town Board planned that the fund balance would help offset the new debt payments.

National Economic Recession Impacts the Town

Just as the new debt payments were coming due, the nation entered into a major recession. This had a negative impact on the Town's two major revenue sources: 1) sales tax and 2) mortgage tax. The recession reduced sales and mortgage tax revenues. Town revenues reached a peak of \$8.5M in 2007 with the next four years revenues between \$500k and \$1.0M less. If revenues had just stayed flat over the last four years, there would have been far less need to use fund balance to offset the new debt payments. The revenues have begun to increase assisting the Town in adopting fiscally conservative plans for future payments.

Best Interest of the Town

When faced with the impact of the national recession simultaneous with new debt payments the Town Board made the decision to use more fund balance than originally planned. The Town Board also decided to develop budgets relying on the use of fund balance when the impacts of the national recession proved to be deeper and longer than economic predictions. **The Town Board deemed the use of fund balance as far preferable to levying a tax and negatively impacting town residents at the height of the national recession.**

See
Note 2
Page 15

Board Action and Rebounding Economy

Two significant events have occurred to significantly reduce the need for use of fund balance for 2013 fiscal year and subsequent years. First, the Town Board created an ambulance district

for the Clifton Park – Halfmoon Ambulance Corp. This brings the Town of Halfmoon in line with the Town of Clifton Park, where the Ambulance Corp. already has independent taxing authority. The financial effect on the Town of Halfmoon is a \$1,099,343 reduction in the 2013 general fund budget and expenditures.

The second event is the economic recovery of the nation. Signs of the recovery began in 2011 when the Town's sales and mortgage tax revenues started to rebound. This recovery in the sales and mortgage tax revenues continued through 2012. In this year Town revenues reached a new high of \$9,399,400.

Going Forward

The Town Board's decision to use fund balance in the short term to avoid burdening residents during difficult economic times is proving to be a wise decision as demonstrated by the following three facts. First, the economy and hence Town revenues have rebounded to new highs. Second, the Town Board reduced its expenditures by over \$1.0M in 2013 which will carry over into future budgets. Third, the Town has a healthy general fund equity of \$3,985,448 (line A8029 of the Office of Comptroller, Annual Financial Report). The highway fund deficit was also cut in half during 2012 fiscal year. There is every reason to believe that the national economy and the Town's finances will continue this recovery in the future. Indeed, revenues for the first half of 2013 continue to outpace the record levels of 2012.

Adopt Budgets With Realistic Revenue Estimates

The Town's revenue estimates are realistic. No economic predictions forecast the depth and duration of the national recession and the dampening effects on the Town's revenue sources. Revenue estimates that appeared optimistic during the recession now look overly conservative with the economic turn-around. When the recession intensified and extended longer than predictions, the Town Board decided to use its reserves as a revenue source, rather than increase the tax burden on its residents. Again, this has proven to be a wise decision based upon the current and forecasted economies.

Implement a Plan to Eliminate the Highway Fund Deficit

The Highway fund balance is already recovering in conjunction with the rebound in the national economy. With sales and mortgage tax revenues rebounding to their pre-recession levels the deficit was slashed by over \$300,000 in 2012. Even greater improvement will continue in 2013 because: 1) 2013 sales and mortgage tax revenues are exceeding 2012 levels, and 2) more sales tax revenue will be allocated to the highway fund because the \$1.1M ambulance appropriation was eliminated from general fund budget. A more detailed plan is included with this response.

Monitor General and Highway Fund Revenues and Make Amendments

The Town Board receives monthly revenue reports from the Finance Director. The Town Board will continue this practice. In the future if faced with dramatically declining sales and mortgage tax revenues, the Town Board may continue to use its reserves as a revenue source, rather than increase the tax burden on its residents.

Develop a Multi-Year Financial Plan

The Town Board is developing a multi-year financial plan in conjunction with the 2014 budget process. Using the budget process as the catalyst to develop the multi-year plan takes

advantage of having Town Council members and department managers already devoting time and effort toward Town financial issues.

APPENDIX B

OSC COMMENTS ON THE TOWN'S RESPONSE

Note 1

Our audit focused only on the financial condition of the general and highway funds. It is inappropriate to generalize and state that, "The Comptroller's audit did not produce any findings nor did it make any recommendations to improve the operations and controls of the Town of Halfmoon finance office." Our audit report comments only on the items and transactions that we tested as part of our audit.

Note 2

The decision on how to finance the budgeted services rests solely with Town management. We did not recommend that Town officials levy a tax to finance the desired level of services. We recommended that Town officials adopt budgets with realistic revenue estimates, based on historical and current economic information, and develop more realistic estimates for the amount of fund balance that will be available. Our concern is not that Town officials used fund balance as a financing source in the annual budgets, but rather that they budgeted for the use of fund balance in excess of the amount that was actually available.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the financial condition of the Town's general and highway funds. To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following:

- We interviewed officials to gain an understanding of the Town's budgeting process and accounting system.
- We evaluated the application controls and procedures over the computerized accounting system to help ensure that the information produced by such systems was reliable.
- We compared the adopted budgets to the accounting records and analyzed operating results.
- We compared budgeted data to actual revenues and expenditures to identify significant differences.
- We reviewed interfund loans and transfers.
- We reviewed budget amendments, minutes of the Board's proceedings, and Board resolutions.
- We analyzed the affect of sales taxes as revenue sources on the general and highway funds.
- We obtained information about and reviewed the capital reserves in the general and highway funds.
- We inquired about long-term financial planning.
- We reviewed and analyzed financial trends in the budgets and fund balances of the general and highway 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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