

# Village of Nassau

## Budgeting

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APRIL 2018

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OFFICE OF THE NEW YORK STATE COMPTROLLER  
Thomas P. DiNapoli, State Comptroller

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# Report Highlights

## Village of Nassau

### Audit Objective

Determine whether the Board adopted budgets based on reasonable estimates.

### Key Findings

- General fund appropriations exceeded expenditures by an annual average of \$118,599 (20.9 percent) for 2014-15 through 2016-17.
- The general fund's unrestricted fund balance increased by \$97,547 (25.7 percent) to \$477,621 over the past three years as of May 31, 2017, which represents 68.5 percent of the 2017-18 appropriations.
- Village officials have not developed a comprehensive written multiyear financial plan.

### Key Recommendations

- Adopt budgets with realistic estimates for expenditures.
- Formulate a plan for the use of excess unrestricted fund balance in the general fund in a manner that benefits Village residents – for example, reducing property taxes when developing the budget, establishing necessary reserves or financing one-time expenditures.
- Develop and adopt a comprehensive multiyear financial plan.

Village officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

### Background

The Village of Nassau (Village) is located in the Town of Nassau in Rensselaer County. The Board of Trustees (Board) is responsible for the overall management and oversight of the Village's financial operations, including the annual budget and financial policies and procedures. The Mayor serves as the Village's chief executive officer and budget officer, responsible for the Village's day-to-day management and for the development of the annual budget. The Treasurer, who is appointed by the Mayor, is the chief fiscal officer responsible for maintaining the Village's accounting records and preparing financial reports.

#### Quick Facts

Employees	25
Population	1,133
2017-18 General Fund Appropriations	\$697,543

### Audit Period

June 1, 2014 – September 30, 2017

# Budgeting

## What Is Realistic Budgeting?

The Board should adopt realistic and structurally balanced budgets based on historical trends, in which recurring revenues finance recurring expenditures and reasonable levels of fund balance are maintained. The Board is also responsible for estimating what the Village will receive in revenue and how much surplus fund balance<sup>1</sup> and reserves, if any, will be available to help fund the next year's operations, and for determining the resulting tax levy. Village officials can legally set aside or reserve portions of fund balance to finance future costs for a specific purpose, and may also appropriate a portion of fund balance to help finance the next year's budget. Therefore, the annual budget must include reasonable estimates of any appropriations that will be used to fund expenditures in the coming year. The Village also may retain a reasonable portion of unrestricted fund balance as a financial cushion for unforeseen circumstances. A fund balance policy that addresses the appropriate level of fund balance to be maintained in each fund can provide the Board with guidelines to use during the budget process.

Planning on a multiyear basis allows Village officials to identify revenue and expenditure trends, set long-term priorities and assess the impact of current budgeting decisions (such as appropriating fund balance or establishing reserves) on future fiscal years. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period. Financial plans should be monitored and continually updated to provide a reliable framework for preparing budgets and guiding the Board's financial decisions.

## The Board Did Not Adopt Realistic Budgets

While the adopted general fund budgets included reasonable revenue estimates, appropriations significantly exceeded expenditures. The variance between appropriations and expenditures has increased from 5.9 percent in 2014-15 to 30.9 percent in 2016-17. Appropriations were overestimated by a total of \$355,797 (20 percent) for the three-year period (Figure 1).

**Figure 1: General Fund Overestimated Appropriations**

	2014-15	2015-16	2016-17	Totals	2017-18 Projection
<b>Appropriations</b>	\$699,132	\$711,521	\$723,122	\$2,133,775	\$697,543
<b>Expenditures</b>	\$660,237	\$565,198	\$552,543	\$1,777,978	\$572,543
<b>Overestimated Appropriations</b>	\$38,895	\$146,323	\$170,579	\$355,797	\$125,000
<b>Percentage Overestimated</b>	5.9%	25.9%	30.9%	20.0%	21.8%

<sup>1</sup> Fund balance is the difference between revenues and expenditures accumulated over time.

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Expenditures realized in 2014-15 were higher, as compared to 2015-16 and 2016-17, primarily due to roof repairs in that year (approximately \$55,000) and police personal service costs that were approximately \$12,000 more than the ensuing years. Nonetheless, appropriations remained higher than actual expenditures. We compared the general fund's appropriations to expenditures for 2014-15 through 2016-17 and found that the overestimated expenditures were distributed among various accounts. However, certain expenditure accounts were repeatedly overestimated during this time period:

- Refuse charges<sup>2</sup> were overestimated by a total of \$90,899, or 43 percent.
- Street lighting was overestimated by a total of \$28,091, or 50 percent.
- Health insurance was overestimated by a total of \$19,037, or 97 percent.

In addition to the overestimated expenditure accounts, the Board included, but did not use, contingency appropriations of \$10,000 in each of the three fiscal years. The Board also appropriated fund balance totaling approximately \$297,000<sup>3</sup> to partially fund the 2014-15 through 2016-17 budgets. The appropriation of fund balance should have resulted in planned operating deficits<sup>4</sup> and fund balance decreases. Instead, the Village did not use any of the annual appropriated fund balance amounts and instead realized operating surpluses (revenues exceeding expenditures) in each year due to the overestimation of appropriations.

The Board's budgeting practices resulted in an unrestricted fund balance increase of \$97,547 (25.7 percent) over the three-year period.<sup>5</sup> As of May 31, 2017, the unrestricted general fund balance was 68.5 percent of the 2017-18 appropriations (Figure 2).

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2 Refuse charges include contracted refuse hauling services and Eastern Rensselaer County Solid Waste Management Authority annual and tipping (gate) fees.

3 The Board appropriated \$97,150, \$100,000 and \$100,000 in fund balance to fund operations in 2014-15, 2015-16 and 2016-17, respectively.

4 A planned operating deficit occurs when a board adopts a budget in which appropriations are greater than planned revenues, with the difference to be funded with appropriated fund balance or appropriated reserves.

5 The general fund's unrestricted fund balance was \$380,074 as of May 31, 2014.

**Figure 2: General Unrestricted Fund Balance at Year-End**

	2014-15	2015-16	2016-17
<b>Total Beginning Fund Balance</b>	\$592,021	\$604,271	\$690,791
<b>Add: Operating Surplus</b>	\$12,250	\$86,520	\$39,482
<b>Total Year-End Fund Balance</b>	\$604,271	\$690,791	\$730,273
<b>Less: Restricted Funds</b>	\$135,340	\$152,010	\$152,652
<b>Less: Non-spendable Funds</b>	\$795	\$0	\$0
<b>Less: Appropriated Fund Balance for the Ensuing Year</b>	\$100,000	\$100,000	\$100,000
<b>Total Unrestricted Funds at Year-End<sup>a</sup></b>	\$368,136	\$438,781	\$477,621
<b>Ensuing Year's Appropriations</b>	\$711,521	\$723,122	\$697,543
<b>Unrestricted Funds as Percentage of the Ensuing Year's Budget</b>	51.7%	60.7%	68.5%
<b>a Includes committed funds of \$9,704 in 2014-15, \$9,717 in 2015-16 and \$9,758 in 2016-17.</b>			

In addition, the appropriation of fund balance that is not needed or used made it appear that the Village had less unrestricted fund balance than it actually did. When unused appropriated fund balance is added back, the Village's recalculated unrestricted fund balance in the 2016-17 budget was 82.8 percent of the next year's appropriations (Figure 3).

**Figure 3: Unused Fund Balance**

	2014-15	2015-16	2016-17
<b>Total Unrestricted Funds at Year End<sup>a</sup></b>	\$368,136	\$438,781	\$477,621
<b>Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget</b>	\$100,000	\$100,000	\$100,000
<b>Total Recalculated Unrestricted Funds</b>	\$468,136	\$538,781	\$577,621
<b>Recalculated Unrestricted Funds as Percentage of Ensuing Year's Budget</b>	65.8%	74.5%	82.8%
<b>a Includes committed funds of \$9,704 in 2014-15, \$9,717 in 2015-16 and \$9,758 in 2016-17.</b>			

The practice of appropriating of fund balance and then not actually using it to finance operations caused the Village's fund balance to keep increasing. The Mayor and two Trustees told us that they did not know the amount of fund balance the Village had.

Some amount of conservative budgeting, setting money aside in reserves, keeping fund balance on hand, or including some contingent amount in the budget provides a cushion against unforeseen circumstances and is prudent. However, the accumulation of excess fund balance can result in taxes that are

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higher than necessary. Although the Treasurer provided monthly budget-to-actual reports, the Board did not request, and the Treasurer did not provide, financial reports of fund balance. In addition, the Board did not adopt a fund balance policy to govern the level of fund balance to be maintained to meet Village's financial needs. Without adequate up-to-date financial information, the Board cannot adopt reasonable budgets based on realistic estimates.

We reviewed the Village's 2017-18 general fund adopted budget and found that, while estimated revenues were reasonable, appropriations continued to be overestimated. Based on historical trends, current actual results of operations<sup>6</sup> and supporting documentation, we project that 2017-18 appropriations are overestimated by approximately \$125,000, or 21.8 percent. Consistent with prior adopted budgets, we project significant expenditure variances in refuse charges, street lighting and health insurance. The budget also includes appropriated fund balance of \$100,000 as a financing source. We project the Village will not use the appropriated fund balance and will again realize an unplanned operating surplus. As a result, the fund balance will continue to increase, and funds that could benefit Village residents will not be used.

### **Village Officials Have Not Developed a Multiyear Financial Plan**

Village officials have not developed a written multiyear financial or capital plan, which would help them address the use of fund balance and plan for future needs. For example, Village officials told us the Board intends to repair Village sidewalks and replace all doors and windows of the Village Hall. Village officials could have prevented the accumulation of unrestricted fund balance by developing a multiyear financial or capital plan with provisions to establish a capital reserve and set appropriate funding levels. This could have included a financial plan that established expected costs for the sidewalks and windows, and specified when the projects would be undertaken and how they would be financed. Such a long-term plan would provide transparency to Village residents on the Board's intentions for making capital improvements while addressing the excessive fund balance.

### **What Do We Recommend?**

The Board should:

1. Adopt budgets that include realistic estimates for expenditures and the amount of fund balance to be available and used to fund operations.
2. Discontinue the practice of adopting budgets with appropriated fund balance that will not be used.

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<sup>6</sup> Year-to-date general fund expenditures for the period June 1, 2017 through September 30, 2017

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3. Adopt a fund balance policy that establishes reasonable levels of fund balance to be maintained to meet the Village's financial needs.
  4. Obtain periodic fund balance reports from the Treasurer.
  5. Formulate a plan for the use of excess unrestricted fund balance in the general fund in a manner that benefits Village residents. Such uses include, but are not limited to, reducing property taxes when developing the budget, establishing necessary reserves or financing one-time expenditures.
  6. Develop and adopt a comprehensive multiyear financial and capital plan to establish the goals and objectives for funding long-term operating and capital needs. These plans should be monitored and updated on an ongoing basis.

# Appendix A: Response From Village Officials

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NASSAU, NEW YORK 12123  
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Fax: (518) 766-2939

**A Progressive Village with Traditional Values**

April 7, 2018

Jeffrey P. Leonard, Chief Examiner  
One Broad Street Plaza  
Glens Falls, New York 12801-4396

Dear Mr. Leonard,

The Village of Nassau Board of Trustees and I have reviewed the OSC preliminary draft findings of your recent audit of the Village of Nassau budgeting process and accumulated "Fund Balance".

We acknowledge these findings and have begun the process of implementing the recommendations as stated in the draft audit. Beginning with the 2018-19 Budget we will adopt a more accurate budget that includes realistic estimates for expenditures and the amount of fund balance to be available and used to fund operations. We will also utilize "Fund Balance" to fund upcoming capital projects planned for the next couple of years.

In the Water Fund we will reduce "Fund Balance" through the pay-off of existing debt.

We will address the other items in the "Report Recommendations" in the "Corrective Action Plan" to be filed within the 90-day time frame.

I would like to take this time to thank the Comptroller's Office for their performance of this audit. [REDACTED] did an excellent job and was very helpful in explaining the issues to myself and other members of the Board. The implementation of these recommendations will give the Board the opportunity to positively improve our budgeting process, and provide more efficient services to our residents.

Sincerely,

Robert W. Valenty  
Mayor

*Mayor*  
**Robert W. Valenty**

*Clerk*  
**Melissa Turner-Bulan**

*Treasurer*  
**Wendy Ashley**

*Building/Codes*  
**Kevin Hitchcock**

*Attorney*  
**David L. Gruenberg**

*Trustees*

**Randy M. Howarth**

**David Scaccia**

**Charles C. Collins**

**Gaetano J. Forte III**

## Appendix B: Audit Methodology and Standards

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We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Village officials to gain an understanding of the budget process and to determine whether the Board adopted a fund balance policy and multiyear financial plan.
- We reviewed adopted general fund budgets and actual results of operations for the period 2014-15 through 2016-17 to determine if revenues and appropriations were reasonable, and whether specific revenues and appropriations were consistently and significantly under- or overestimated.
- We analyzed the Village's general fund financial records for fiscal years 2014-15 through 2016-17 to determine if the appropriation of fund balance resulted in planned operating deficits and a decline in fund balance.
- We reviewed the adopted general fund budget for 2017-18 and interviewed Village officials to determine if revenues and appropriations were reasonable based on actual results for the period June through September 2017, historical data and supporting source documentation. We projected actual revenues, expenditures and fund balance as of fiscal year end 2017-18.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided to our office within 90 days, pursuant to Section 35 of 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 the CAP available for public review in the Village Clerk's office.

## Appendix C: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://www.osc.state.ny.us/localgov/regional_directory.pdf)

### **Cost-Saving Ideas** – Resources, advice and assistance on cost-saving ideas

[www.osc.state.ny.us/localgov/costsavings/index.htm](http://www.osc.state.ny.us/localgov/costsavings/index.htm)

### **Fiscal Stress Monitoring** – Resources for local government officials experiencing fiscal problems

[www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm](http://www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm)

### **Local Government Management Guides** – Series of publications that include technical information and suggested practices for local government management

[www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm](http://www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm)

### **Planning and Budgeting Guides** – Resources for developing multiyear financial, capital, strategic and other plans

[www.osc.state.ny.us/localgov/planbudget/index.htm](http://www.osc.state.ny.us/localgov/planbudget/index.htm)

### **Protecting Sensitive Data and Other Local Government Assets** – A non-technical cybersecurity guide for local government leaders

[www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf](http://www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf)

### **Required Reporting** – Information and resources for reports and forms that are filed with the Office of the State Comptroller

[www.osc.state.ny.us/localgov/finreporting/index.htm](http://www.osc.state.ny.us/localgov/finreporting/index.htm)

### **Research Reports/Publications** – Reports on major policy issues facing local governments and State policy-makers

[www.osc.state.ny.us/localgov/researchpubs/index.htm](http://www.osc.state.ny.us/localgov/researchpubs/index.htm)

### **Training** – Resources for local government officials on in-person and online training opportunities on a wide range of topics

[www.osc.state.ny.us/localgov/academy/index.htm](http://www.osc.state.ny.us/localgov/academy/index.htm)

## Contact

Office of the New York State Comptroller  
Division of Local Government and School Accountability  
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[www.osc.state.ny.us/localgov/index.htm](http://www.osc.state.ny.us/localgov/index.htm)

Local Government and School Accountability Help Line: (866) 321-8503

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