



Village of Round Lake

Budgeting Practices and Financial Condition

Report of Examination

Period Covered:

June 1, 2011 – October 31, 2014

2015M-26



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 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 Board of Trustees 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 Round Lake, entitled Budgeting Practices and 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 Round Lake (Village) is located in Town of Malta in Saratoga County. The Village encompasses 1.1 square miles and has approximately 620 residents. The Village is governed by a Board of Trustees (Board), which comprises four elected Trustees and an elected Mayor. The Board is responsible for the general management and control of the Village's financial operations, including establishing internal controls over financial operations and maintaining sound financial condition. The Mayor is the chief executive officer, and the Mayor and Trustees are responsible for the development and administration of the annual budget, as well as short- and long-term planning. The Treasurer, who is appointed by the Board, is the chief financial officer and is responsible for receiving and disbursing Village funds and maintaining the accounting records. The Village contracts with a certified public accountant to assist the Treasurer with her duties and to prepare various financial reports.

The Village provides various services to its residents, including general government support, street maintenance and improvement, snow removal, fire protection, youth recreation and water and sewer services. The Village accounts for most of its financial activity in the general, water and sewer funds. For the 2014-15 fiscal year, the Village's adopted appropriations were approximately \$1.8 million, funded primarily with real property taxes and water and sewer charges.

Objective

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

- Did the Board adopt realistic budgets in the water and sewer funds and take appropriate action to maintain the Village's financial stability?

Scope and Methodology

We examined the Village's financial condition and budgeting practices for the period June 1, 2011 through October 31, 2014.

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 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 Village Clerk's office.

Budgeting Practices and Financial Condition

A key measure of the Village's financial condition is its level of fund balance, which is the difference between revenues and expenditures accumulated over time. The Village may retain a reasonable level of fund balance as a financial cushion for unanticipated expenditures. When a fund does not have adequate cash to meet its current obligations, governing officials are often forced to explore other options such as obtaining loans from other funds.¹ The Board is responsible for the financial planning and management necessary to maintain the Village's fiscal health. To meet these responsibilities, it is essential that the Board adopt realistic and structurally balanced budgets for all of the Village's operating funds with recurring revenues that finance recurring expenditures. Village officials should also develop detailed multiyear plans to allow them to set long-term priorities and establish plans to finance future costs.

The Board's consistent practice of appropriating fund balance to finance recurring annual operations, along with significant unplanned costs to repair the Village's water tower, have caused substantial financial decline in both the water and sewer funds. The Board also adopted budgets that appropriated more fund balance than was actually available in the water fund to finance operations for the 2013-14 and 2014-15 fiscal years. Furthermore, the water fund balance went into a deficit position at the end of the 2013-14 fiscal year because of the Board's reliance on appropriated fund balance to fund operations. The declining financial positions of the water and sewer funds have also caused each fund to rely on loans from the general fund to pay their obligations. This will negatively impact the general fund if additional loans are necessary or the water and sewer funds are unable to repay their loans. Lastly, the Board has not developed multiyear plans, which would have allowed for better planning to ensure that adequate revenues would be available to finance recurring costs. Such plans also could have helped to prevent the water and sewer funds' financial decline.

Financial Condition

It is essential that the Board adopt reasonable, realistic and structurally balanced budgets in which recurring revenues finance recurring expenditures and reasonable levels of fund balance are maintained. An appropriation of fund balance is the use of unexpended resources from prior years to finance appropriations and is considered a "one shot" financing source, which is an acceptable and reasonable

¹ General Municipal Law authorizes Villages to temporarily advance moneys that are not immediately needed in one fund to any other fund.

practice when a local government has accumulated an adequate level of fund balance. However, when a local government has recurring annual operating deficits, fund balance will eventually be depleted and ultimately will go into a deficit position.

Water Fund – We found that, except for minor variances, the Board’s adopted estimates for revenues and expenditures were reasonable when compared to actual revenues and expenditures. However, the Board’s consistent practice of appropriating fund balance to finance recurring annual operations and the significant unplanned costs to repair the Village’s water tower during the 2012-13 fiscal year caused the water fund’s financial condition to decline significantly over the past three years. At the beginning of the 2011-12 fiscal year, total fund balance was \$164,063; however, fund balance declined to a deficit of \$3,624 by the end of the 2013-14 fiscal year, as indicated in Figure 1. Furthermore, the Board adopted budgets that appropriated more fund balance than was actually available to finance operations for both the 2013-14 and 2014-15 fiscal years.

At the end of 2011-12, the water fund’s total fund balance was \$160,996, of which \$115,000 was restricted, leaving \$45,996 of available fund balance. The Board appropriated \$38,725, or 84 percent, of the available fund balance to finance operations in 2012-13, leaving an unrestricted unappropriated fund balance of only \$7,271. Furthermore, during 2012-13 the Village had to make unplanned repairs to its water tower; these repairs consisted of costs for equipment, parts, labor and painting that totaled \$122,642.² The Village used \$114,000 of its reserve fund balance to help pay for the cost of the repairs, leaving only \$1,000 in the reserve at the end of the 2012-13 fiscal year and \$9,212 unreserved, for a total fund balance of \$10,212.

For 2013-14, the Board budgeted to appropriate \$28,125 of fund balance to finance operations. However, there was only \$9,212 of available fund balance to appropriate, resulting in the water fund commencing 2013-14 with a budgetary deficit of \$18,913. The water fund also was at risk of its fund balance entering into a deficit position by the end of 2013-14. While 2013-14 actual revenues were \$6,592 less than their estimates, expenditures were \$20,800 less than budgeted appropriations. As a result, the water fund used a smaller amount of fund balance to finance operations than in the previous year. However, the fund ended 2013-14 with a deficit balance of \$3,624. Furthermore, although the water fund balance was in a deficit position at the end of 2013-14, the Board still budgeted to appropriate \$3,562 of fund balance to finance operations in 2014-15 when none

² Total repair costs exceeded this amount; however, a portion of the costs were accounted for in the capital projects fund.

was available. This caused the water fund to have a \$7,186 budgetary deficit at the start of 2014-15, and the possibility exists that the water fund's deficit will continue to increase.

Figure 1: Water Fund			
	FY 2011-12	FY 2012-13	FY 2013-14
Beginning Fund Balance	\$164,063	\$160,996	\$10,293 ^a
Revenues	\$160,269	\$166,153	\$160,738
Expenditures	\$163,336	\$316,937	\$174,655
Results of Operations	(\$3,067)	(\$150,784)	(\$13,917)
Ending Fund Balance	\$160,996	\$10,212	(\$3,624)
Less: Restricted Fund Balance	\$115,000	\$1,000	\$0
Unrestricted Fund Balance	\$45,996	\$9,212	(\$3,624)
Budgeted Fund Balance Appropriation for Ensuing Year	\$38,725	\$28,125	\$3,562
Allowable Fund Balance Appropriation	\$38,725	\$9,212	\$0
Unrestricted, Unappropriated Fund Balance/(Budgetary Deficit for Ensuing Year)	\$7,271	(\$18,913)	(\$7,186)

^a There was a minor prior period adjustment to fund balance due to an error.

The water fund's declining financial condition has also negatively impacted its cash balance, forcing the water fund to borrow moneys from the general fund to pay its bills and payroll. The water fund's cash balance declined from \$125,875 as of May 31, 2012 to \$7,826 as of May 31, 2014, or by 94 percent. Furthermore, the cash balance declined to only \$1,813 as of October 31, 2014. Without the loans from the general fund, the water fund would not have had enough cash to pay its obligations. Despite the loans, the cash balance is still declining at a pace that will likely require more loans from the general fund or other sources (borrowings) to finance the fund's operations. The general fund's reported outstanding loans to the water fund totaled \$11,681 as of May 31, 2012, \$36,142 as of May 31, 2013 and \$52,985 as of May 31, 2014. The water fund has no current plans to repay the general fund.

Sewer Fund – We found that, except for minor variances, the Board-adopted estimates for sewer fund revenues and expenditures were reasonable when compared to actual revenues and expenditures. However, the Board's consistent practice of appropriating fund balance to finance recurring annual operations has caused the sewer fund's financial condition to decline significantly from fiscal years 2011-12 through 2013-14, as indicated in Figure 2. At the beginning of the 2011-12 fiscal year, the total fund balance was \$38,416; however, fund balance declined to \$16,218 (by 58 percent) by the end of the 2013-14 fiscal year. Further, the Board appropriated \$12,446 of fund balance to finance operations in 2014-15, leaving the sewer fund with only \$3,772 of unrestricted unappropriated fund balance as of May 31, 2014.

Figure 2: Sewer Fund			
	FY 2011-12	FY 2012-13	FY 2013-14
Beginning Fund Balance	\$38,416	\$37,309	\$29,633
Revenues	\$73,438	\$73,308	\$71,115
Expenditures	\$74,545	\$80,984	\$84,530
Results of Operations	(\$1,107)	(\$7,676)	(\$13,415)
Ending Fund Balance	\$37,309	\$29,633	\$16,218
Less: Appropriated Fund Balance	\$10,808	\$15,113	\$12,446
Unrestricted, Unappropriated Fund Balance	\$26,501	\$14,520	\$3,772

As a result of the sewer fund’s financial decline, its cash balance decreased from \$24,657 as of May 31, 2012 to \$6,066 as of May 31, 2014 (by 75 percent). While not as extensive as the water fund, the sewer fund has had to borrow as much as \$2,654 from the general fund to address periodic cash flow issues. The sewer fund has repaid the general fund for all outstanding loans as of October 31, 2014. However, if the sewer fund’s cash balance continues to decline, it will likely have to rely on more interfund loans or other borrowing options to be able to pay its obligations in a timely manner.

The unplanned costs to repair the water tower and the Board’s consistent practice of appropriating fund balance to finance recurring annual operations have caused the water and sewer funds’ financial condition to decline significantly. Further, the Board adopted budgets for the water fund that appropriated more fund balance than was available. The Board’s over-reliance on using fund balance to finance annual operations will result in it having to find ways to reduce costs and/or increase revenues (i.e., increase water and sewer rent rates) to allow the funds to become fiscally sound again. If the Board continues to appropriate fund balance in the water and sewer funds, the deficit in the water fund will grow, and the sewer fund will likely incur a fund balance deficit. Furthermore, the water and sewer funds’ reliance on loans from the general fund may restrict the general fund’s financial flexibility in the future.

Multiyear Financial Planning

An important Board oversight responsibility is to plan for the future by setting adequate long-term priorities and goals. Effective multiyear plans project operating and capital needs and their financing sources. Planning on a multiyear basis will enable the Board to develop revenue and expenditure trends, to establish long-term priorities and goals and to consider the impact of current budgeting decisions on future fiscal years. Any long-term financial and capital plans should be monitored and updated on an ongoing basis to ensure that decisions are guided by the most accurate information available.

The Board did not develop or adopt a multiyear financial plan to address the water fund’s deficit fund balance or the sewer fund’s

declining fund balance. Had such plans been adopted, the Board would have had a valuable resource that would have allowed it to make informed decisions. The Board also would have understood that appropriating fund balance in each year in the water and sewer funds would have had a negative impact on the funds' financial position and could have taken steps to avoid this from occurring.

Recommendations

The Board should:

1. Develop and adopt structurally balanced budgets for the water and sewer funds.
2. Develop a plan to eliminate the fund balance deficit in the water fund and alleviate the fiscal stress of the water and sewer funds.
3. Make provisions for repaying the water and sewer funds' loans to the general fund.
4. Develop a multiyear plan that includes provisions to address the fiscal stress in the water and sewer funds.

APPENDIX A
RESPONSE FROM VILLAGE OFFICIALS

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

Settled in 1868
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Dixie Lee Sacks

Trustees
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Heidi Parker
Christopher Nellissen
Michael Roets

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Village Treasurer
Kim A. Sheridan-Dugmore

Sup. of Public Works
John Stevenson

May 11, 2015

CERTIFIED MAIL, R.R.R.

Jeffrey P. Leonard, Chief Examiner
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Glens Falls Regional Office
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Glens Falls, NY 12801-4396

Re: Audit Covering Period June 1, 2012 – October 31, 2014

Dear Sir or Madam:

This letter constitutes the response of the Village of Round Lake to the Audit Covering Period June 1, 2012 – October 31, 2014 and our corrective action plan. There are four recommendations, and we respond to each:

Recommendation #1: Develop and adopt structurally balanced budgets for the water and sewer funds.

Response: The Village agrees with the audit findings. We have already increased the water and sewer income for the newly adopted 2015/2016 budget which provides sufficient funding to balance the water and sewer funds. Specifically, water rates were increased immediately prior to the audit report from \$360 per unit to \$400 per unit per year, and sewer rates will increase from \$272 per unit to \$300 per unit per year. Additionally, the Village has adjusted the manner in which it assesses water and sewer units for commercial properties to coincide with the number of units assessed by Saratoga County, resulting in an increase in number of commercial units within the Village by 10.

Recommendation #2: Develop a plan to eliminate the fund balance deficit in the water fund and alleviate the fiscal stress of the water and sewer funds.

Response: The Village agrees with the audit findings. Please see the response to Recommendation #1, which explains the Village's corrective action.

Recommendation #3: Make provisions for repaying the water and sewer funds' loans to the general fund.

*The Village of Round Lake is an Equal Opportunity Provider and Employer.
Complaints of discrimination should be sent to: USDA, Director, Office of Civil Rights, Washington, DC 20250-9410*

Response: The Village agrees with the audit findings. We calculate that the funding increases set forth above will be sufficient to repay the general fund by June 30, 2015.

Recommendation #4: Develop a multiyear plan that includes provisions to address the fiscal stress in the water and sewer funds.

Response: Our corrective action plan is as follows:

- Water rates were increased from \$360 to \$400 per unit per year as of Fall, 2014.
- Sewer rates will be increased from \$272 to \$300 per unit per year as of June, 2015.
- We have changed the manner in which we assesses water and sewer units for commercial properties to coincide with the number of units assessed by Saratoga County, resulting in an increase in number of commercial units within the Village by 10 as of June, 2015.
- Two new developments are under construction which will provide 120 new water units within the next three years.
- We will reassess water and sewer rate annually to ensure that adequate fund balances are maintained.

I would be glad to meet with any representative of your Department should you wish to discuss your audit findings further.

Very truly yours,

VILLAGE OF ROUND LAKE

By:


Dixie Lee Sacks, Mayor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the Village's financial condition and adequacy of the internal controls put in place by Village officials to safeguard Village assets and monitor financial activities. To accomplish our audit objective and obtain relevant audit evidence, our procedures included the following:

- We interviewed the Mayor and Trustees to gain an understanding of the Village's financial management policies and procedures. This included inquiries about the Village's budgeting practices and the development of plans to maintain the Village's fiscal stability.
- We reviewed the Village's accounting records for the water and sewer funds for fiscal years 2011-12, 2012-13, 2013-14 and 2014-15 as of October 31, 2014 to ensure they were complete and accurate. Specifically, we reviewed balance sheet accounts and revenues and expenditures to verify that they were properly recorded and supported.
- We compared adopted budgets for the water fund and sewer fund for fiscal years 2011-12 through 2013-14 with actual results of operations to determine if the budgets were realistic and reasonable.
- We analyzed the Village's financial records for the water fund and sewer fund for fiscal years 2011-12 through 2013-14 to determine if these funds' financial condition had declined. We also evaluated any factors contributing to any declines.
- We reviewed the Village's accounting records to evaluate the water and sewer funds' cash position, identify all of the interfund loans and determine if the loans were repaid.

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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