

Village of Granville

Financial Condition of the Sewer Fund

JUNE 2018



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

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Report Highlights

Village of Granville

Audit Objective

Determine if the Board adopted realistic budgets for the sewer fund and took appropriate action to maintain the Village's overall fiscal stability.

Key Findings

- The Board consistently overestimated revenues and underestimated appropriations in the sewer fund budgets for fiscal years 2014-15 through 2016-17, resulting in operating deficits and a deficit fund balance of \$36,539 as of May 31, 2017.
- The general, water and sewer fund all experienced cash flow issues due to the sewer fund's financial problems.
- The Board has not adopted a fund balance policy.

Key Recommendations

- Adopt budgets that include adequate recurring revenues to finance recurring expenditures.
- Formulate a plan to eliminate the sewer fund deficit.
- Adopt a fund balance policy to govern the level of fund balance to be maintained in each of the Village's funds.

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

Background

The Village of Granville (Village) is located in the Town of Granville in Washington County. The Board of Trustees (Board) is responsible for the overall management and oversight of the Village's financial operations, including adopting the annual budget and establishing financial policies and procedures. The Mayor serves as the Village's chief executive officer and budget officer.

The Village Clerk-Treasurer, who is appointed by the Board, is the chief fiscal officer. The Clerk-Treasurer is responsible for preparing, maintaining and reporting the Village's financial information.

Quick Facts

Employees	23
Population	2,543
2017-18 Sewer Fund Appropriations	\$557,250

Audit Period

June 1, 2014 - December 31, 2017

Financial Condition of the Sewer Fund

What is Effective Financial Condition Management?

Financial condition may be defined as a village's ability to balance recurring expenditure needs with recurring revenue sources, while providing desired services on a continuing basis. To maintain a village's fiscal stability, it is important for the board to adopt realistic and structurally balanced budgets based on historical trends, in which recurring revenues finance recurring expenditures. Officials are also responsible for ensuring the level of fund balance maintained is sufficient to provide adequate cash flow.

The board is responsible for estimating what the village will receive in revenue and how much surplus fund balance¹ and reserves, if any, will be available to help fund the next year's operations and for determining the resulting tax levy and user charges. The board can legally 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. This is an acceptable budgeting practice, provided that officials reasonably estimate that there will be an adequate level of fund balance at fiscal year-end.

However, when a village appropriates too much fund balance or consistently has annual operating deficits, fund balance is depleted and may become a deficit balance. This could cause the village to experience fiscal stress and cash flow problems, resulting in officials needing to explore options such as obtaining loans from other funds² and short-term borrowings. Therefore, the annual budget must include reasonable estimates of any appropriations that will be used to fund expenditures in the coming year. In addition, a fund balance policy that addresses the appropriate level of fund balance to be maintained in each fund should be adopted to provide the board with guidelines to use during the budget process.

The Board Consistently Overestimated Revenues and Underestimated Appropriations in the Sewer Fund

The Board consistently adopted sewer fund budgets with estimated revenues that exceeded actual revenues and appropriations that were less than expenditures for the 2014-15 through 2016-17 fiscal years. The Board overestimated revenues by a total of \$118,684 (7.8 percent) and underestimated appropriations by a total of \$52,288 (3 percent) for the three year period.

1 Fund balance is the difference between revenues and expenditures accumulated over time.

2 General Municipal Law authorizes villages to temporarily advance money that is not immediately needed in one fund to any other fund.

Figure 1: Sewer Fund - Budget to Actual Comparisons

Estimated Revenues					
	2014-15	2015-16	2016-17	Totals	2017-18 Projection
Estimated Revenues	\$555,000	\$541,750	\$534,750	\$1,631,500	\$557,250
Revenues	\$490,390	\$507,877	\$514,549	\$1,512,816	\$553,250
Overestimated Revenues	\$64,610	\$33,873	\$20,201	\$118,684	\$4,000
Percentage Overestimated	13.2%	6.7%	3.9%	7.8%	0.7%
Appropriations					
	2014-15	2015-16	2016-17	Totals	2017-18 Projection
Appropriations	\$570,000	\$566,750	\$534,750	\$1,671,500	\$557,250
Expenditures	\$598,205	\$580,564	\$545,019	\$1,723,788	\$543,250
(Under)Overestimated Appropriations	(\$28,205)	(\$13,814)	(\$10,269)	(\$52,288)	\$14,000
Percentage (Under) Overestimated	(4.7%)	(2.4%)	(1.9%)	(3.0%)	2.6%

The variances between budgeted amounts and actual revenues and the consistent overexpenditure of budgeted appropriations each year shows a lack of realistic budgeting. The Clerk-Treasurer continuously monitored appropriations and presented budget amendments to the Board. However, the Board did not address the financial problems with the sewer fund or adopt more conservative budgets for the fund.

The revenue variances were caused primarily by the Board repeatedly overestimating the amount to be collected from outside septic haulers in each of the three years for a combined total of \$114,895 (191 percent). According to the Department of Public Works Superintendent, the Village had to stop accepting the amount of septic waste it historically received because the cost of treating it became too expensive. However, the Board did not reduce this estimated revenue in the budgets.

The variances between appropriations and expenditures were spread throughout individual budget line items in the sewer fund during the three fiscal years. However, certain accounts had material variances in certain years. For example, in 2014-15 the contractual appropriation was overspent by \$16,102 (10 percent). In 2016-17 personal services were overspent by \$10,589 (6 percent) because the Board did not include a \$10,000 retirement incentive to a former employee in the adopted budget.

We reviewed the Village's 2017-18 sewer fund adopted budget and found that, estimated revenues and appropriations were more reasonable than the prior

years. Additionally, the budget did not include appropriated fund balance as a financing source.

The consistent practice of overestimating revenues and underestimating appropriations has led to insufficient revenues to finance expenditures on an ongoing basis.

The Sewer Fund’s Financial Condition Has Declined

The sewer fund had a fund balance of \$174,375 as of June 1, 2014 that decreased by \$210,914 (more than 120 percent) over a three-year period to a deficit fund balance of \$36,539 as of May 31, 2017.

Figure 2: Sewer Fund’s Fund Balance at Year-End

	2014-15	2015-16	2016-17	2017-18 Projection
Total Beginning Fund Balance	\$174,375	\$66,618	(\$6,069)	(\$36,539)
Add: Operating Deficit	(\$107,815)	(\$72,687)	(\$30,470)	\$10,000
Total Year-End Fund Balance	\$66,560	(\$6,069)	(\$36,539)	(\$26,539)
Less: Appropriated Fund Balance for the Ensuring Year	\$25,000	\$0	\$0	\$0
Total Assigned Appropriated (Unassigned) Fund Balances at Year-End	\$41,560	(\$6,069)	(\$36,539) ^a	(\$26,539)

^a Includes a prior period adjustment of \$58 in 2015-16.

In addition to the impact of the revenue and appropriation estimates previously discussed, the Board appropriated fund balance to partially finance the cost of operations in both the 2014-15 and 2015-16 adopted budgets. For example, the Board appropriated \$15,000 (9 percent) of available fund balance to finance 2014-15 operations and \$25,000 (38 percent) of available fund balance to finance operations in 2015-16.³ As shown in Figure 2 the Board did not appropriate fund balance at the end of 2015-16 to finance part of the 2016-17 budget and this practice continued in 2016-17.

The Board’s consistent practice of overestimating revenues and underestimating appropriations resulted in the sewer fund realizing operating deficits in all three years and a significant decline in the sewer fund balance from \$174,375 to a deficit of \$36,539. The Board has started to address this with a more conservative budget for 2017-18 that will likely produce a surplus of about \$10,000 if there are no unexpected events. However, the Board will have to continue to be more conservative for several years to eliminate the deficit and to

³ The Board discontinued the practice of appropriating fund balance as a revenue source in the 2016-17 and 2017-18 adopted budgets.

build a fund balance large enough to provide for cash flow and provide a cushion against unexpected circumstances.

Even though the Board adopted general and water fund budgets with realistic estimates for revenues and expenditures, both of these funds experienced cash flow issues during the years 2014-15 through 2016-17. The cash flow strain in the general and water funds occurred because the Board did not take action to alleviate the sewer fund's declining financial condition and low levels of cash. As a result, both the general and water fund advanced money to the sewer fund for its operating costs.

For example, as of May 31, 2017, the general fund had advanced a total of \$75,000 and the water fund had advanced a total of \$80,000 to the sewer fund. These advances caused both the general and water funds' cash balances to decline over the three years and resulted in them having low cash balances at fiscal year-end 2016-17 (Figure 3). Because of the declining cash balance in the general fund, the Village issued a tax anticipation note (TAN) in May 2017 in the amount of \$50,000⁴ in order to have enough cash to pay the general fund's expenditures.

Figure 3: Cash Position and Interfund Loans

General Fund			
	2014-15	2015-16	2016-17
Total Cash Balances	\$80,955	\$59,066	\$78,086 ^a
Interfund Loans to the Sewer Fund	\$40,000	\$25,000	\$75,000
Water Fund			
	2014-15	2015-16	2016-17
Total Cash Balances	\$150,154	\$3,553	\$1,684
Interfund Loans to the Sewer Fund	\$0	\$100,000	\$80,000
Sewer Fund			
	2014-15	2015-16	2016-17
Total Cash Balances	\$6,805	\$17,868	\$3,961
Interfund Loans Due to the General Fund	\$40,000	\$25,000	\$75,000
Interfund Loans Due to the Water Fund	\$0	\$100,000	\$80,000

^a Includes TAN proceeds of \$50,000. Property taxes are collected in June and the TAN was paid in full on June 20, 2017.

⁴ Property taxes are collected in June and the TAN was paid in full on June 20, 2017.

In August 2017, the sewer fund repaid both the general and water fund outstanding interfund loans after collecting the annual sewer rents. However, as of December 28, 2017, the sewer fund again owed the general fund \$25,000. The cash the sewer fund borrowed was used to pay obligations prior to rent revenue being received. The Clerk-Treasurer informed us he anticipated the continued need for additional interfund advances because of the sewer fund's financial condition.

What Do We Recommend?

The Board should:

1. Adopt sewer fund budgets that include recurring revenues sufficient to finance recurring expenditures.
2. Adopt a fund balance policy to govern the level of fund balance to be maintained in each of the Village's funds.
3. Develop a plan to eliminate the fund balance deficit in the sewer fund and improve the cash flow in all funds.

Appendix A: Response From Village Officials

VILLAGE OF GRANVILLE

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GRANVILLE, NEW YORK 12832

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www.granvillevillage.com

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□

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Mayor

June 4, 2018

GORDON SMITH
Deputy Mayor

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NYS Office of the State Comptroller
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Glens Falls, NY 12801-4396

DEAN HYATT
Trustee

PAUL LABAS
Trustee

STEPHANIE MUNGER
Trustee

Re: Report of Examination 2018M-049 -- Response & Corrective Action Plan (DRAFT)

RICHARD H. ROBERTS
Clerk & Treasurer
Registrar

Dear Mr. Leonard:

GEORGE JOHNSON
Supt. of Public Works

I met with Senior Examiner [REDACTED] and Village Clerk Richard Roberts on Friday, June 1st concerning the above report of examination. I would like to thank [REDACTED] for her time and professionalism throughout the examination process.

ROGER FORANDO
Village Justice

ERNEST BASSETT, JR.
Chief of Police

The purpose of this letter is to provide a Response/Corrective Action Plan to address the recommendations made by the OSC based upon the audit findings:

CHRISTINA BISHOP
Planning Board Chairwoman

MOLLY CELANI
Zoning Board of Appeals

- 1) **Adopt Sewer Fund Budgets that include recurring revenues sufficient to finance recurring expenditures.**

Based upon our review of the data and conversations with [REDACTED] it would appear that the primary revenues that were overestimated/overstated in the sewer fund budget were those relating to Septage Receiving. These revenues were compromised for a number of reasons (DEC restrictions, weather events, etc.). However, the Board made the decision to eliminate this line item completely from the 2018-19 Sewer Fund Budget. The remaining revenue sources (Metered & Unmetered Rents, Interest & Penalties, etc.) have generally been reliable and stable. With the elimination of the Septage Receiving line item in its entirety, it is hoped that this issue has been put to rest for the current year and for subsequent budget cycles.

- 2) **Adopt a Fund Balance Policy to govern the level of fund balance to be maintained in each of the Village's Funds.**

The Village Board will address the issue of a policy to govern fund balance this summer. A copy of the Resolution will be provided to the OSC upon adoption. While this matter is still to be considered, a potential Fund Balance Policy based upon the level of appropriations was discussed with [REDACTED] and will be proposed:

- *General Fund: Goal for Fund Balance: 10-20% of Total Appropriations
- *Water Fund: Goal for Fund Balance: > 25% of Total Appropriations
- *Sewer Fund: Goal for Fund Balance: > 25% of Total Appropriations

While it is anticipated that it will take 2-3 years to reach the above goal in the Sewer Fund, the Village is presently compliant with the above goals in the both the General and Water Funds as of 6/1/18.

3) Develop a Plan to eliminate the fund balance deficit in the Sewer Fund and improve cash flow in all funds.

Preliminary estimates for the 2017-18 fiscal year indicate a surplus for the Sewer Fund of \$16-\$17K, which will reduce the deficit in reserves from \$36K to \$19-\$20K. In addition, based upon counsel from the OSC, the Village Board moved to increase Sewer Rents by \$25/HH Unit in 2018-19. This increase was beyond the recommendation from the Clerk-Treasurer (\$10/HH increase). The additional funds associated with this increase will be earmarked to address the shortfall in reserves in the current and successive years. In January, the Village Board also approved the reclassification of several employees within the Village DPW that will result in cost savings for the Sewer Fund. These changes are viewed to be permanent in nature. While modest future rate increases will be required in the Sewer Fund to keep pace with inflation, the Board estimates that the Sewer Fund will have positive reserves as of June, 2019, and reach its target goal for Fund Balance (> 25% of total appropriations as above) by June of 2021. This should serve to improve the cash flow in the Sewer Fund (and all funds) dramatically.

Again, I would like to emphasize that the Village greatly values and appreciates the working relationship with the Office of the State Comptroller. While audits often discover items that need to be addressed, the Village Board has attempted to be responsive to the recommendations presented. The Board considered the counsel provided by the OSC carefully, and will continue to attempt to address these matters constructively going forward. The Village Board was also pleased by the relatively limited scope of the areas of concern associated with this examination.

We appreciate the opportunity to provide this response/corrective action plan. If modifications or edits are suggested, please advise at your convenience and we will attempt to incorporate any suggestions presented.

Sincerely yours,

Brian D. LaRose
Mayor

Appendix B: Audit Methodology and Standards

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 the Clerk-Treasurer to gain an understanding of the budget process and to determine whether the Board adopted a fund balance policy.
- We reviewed adopted budgets for the general fund, water fund and sewer fund 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 financial records for the general fund, water fund and sewer fund 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 adopted general fund, water fund and sewer fund budgets for 2017-18 and interviewed the Clerk-Treasurer to determine if revenues and appropriations were reasonable based on actual results for the period June through December 2017, historical data and supporting source documentation. We reviewed the 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

Regional Office Directory

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

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

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

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

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

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

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

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

Contact

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