



Town of Lisbon

Financial Condition

Report of Examination

Period Covered:

January 1, 2010 — December 31, 2011

2012M-202



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 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 Town 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 Lisbon, entitled 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 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 Lisbon (Town) is located in St. Lawrence County and has a population of approximately 4,100 residents. The Town is governed by a Town Board (Board) which consists of four elected Board members and an elected Town Supervisor (Supervisor). The Town offers a variety of services to its residents, including street maintenance and improvements, snow removal, library, parks and recreation, water and sewer services, and general government support. The Town's 2011 operating expenditures totaled \$764,164 for the general fund, \$1,372,757 for the highway fund, \$15,553 for the water fund, \$66,088 for the sewer fund, and \$37,879 for the library fund. These expenditures were funded with revenues from local taxes, State aid, and charges for services.

The Supervisor serves as both the chief executive officer and chief fiscal officer. As chief fiscal officer, the Supervisor is responsible for virtually all of the Town's financial duties, including receipt and disbursement of Town monies, maintaining financial records, and preparing various financial reports. The Supervisor appointed a bookkeeper to assist with recordkeeping responsibilities. The Board is responsible for overseeing the Town's operations and finances. The Board also appointed a budget advisor to assist with preparing budgets and analyzing fund balance.

Objective

The objective of our audit is to evaluate the Town's financial condition. Our audit addressed the following related question:

- Has the Board effectively monitored financial condition?

Scope and Methodology

We examined the Town's financial condition for the period January 1, 2010, through December 31, 2011. In addition, we extended our review of financial trends back to 2007. 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 Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our findings and recommendations and indicated they have initiated 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 Town Clerk's office.

Financial Condition

The Board is responsible for making sound financial decisions that are in the best interest of the Town and the taxpayers. This responsibility requires Board members to balance the level of services desired and expected from Town residents with the ability and willingness of the residents to pay for such services. It is essential that the Board adopt structurally balanced budgets for all of its operating funds that provide recurring revenues to finance recurring expenditures.

The Town may retain a reasonable portion of fund balance, referred to as unexpended surplus funds,¹ to use as a financial cushion in the event of unforeseen financial circumstances and can legally reserve portions of fund balance to finance future costs for various specified objects or purposes. It is also important that long-term plans are in place to ensure that moneys accumulated in operating funds are used for appropriate and authorized purposes. Therefore, the Board should maintain only a reasonable amount of fund balance and adopt budgets that include realistic estimates of revenues and expenditures, with fund balance used as a funding source when appropriate. By following these practices, the Board can ensure that the amount of real property taxes to be raised is no greater than necessary.

The Board did not adopt a policy or develop procedures to govern the level of fund balance maintained. Additionally, the Board had not developed accurate budget estimates or a formal, comprehensive multi-year financial and capital plan to adequately address the Town's long-term operational and capital needs. As a result, the general fund has retained excessive amounts of unexpended surplus fund balance.

Fund Balance

Maintaining a reasonable level of unexpended surplus funds is a key element of effective long-term financial planning. If the amount retained is too low, the Town may not have a sufficient financial cushion for emergencies. However, if this amount is excessive, moneys are unnecessarily held instead of being used to benefit the

¹ The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balances 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. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" 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).

taxpayers. The Board is therefore responsible for adopting budgets based on realistic estimates of revenues and expenditures and using unexpended surplus funds as a funding source as appropriate. It is important for the Board to adopt a policy that addresses the level of unexpended surplus funds to be maintained and specifies how the Board expects to use the surplus.

The Board has accumulated a significant amount of surplus funds in the general fund and has not adopted a policy that addresses maintaining a reasonable amount of unexpended surplus funds or how it plans to use the surplus. Table 1 shows unexpended surplus fund balance trends over a four-year period:

Table 1: General Fund Operating Results and Fund Balance				
	2008	2009	2010	2011
Year-End Fund Balance	\$1,049,408	\$1,286,949	\$1,302,609	\$1,081,076
Less: Appropriated Fund Balance for Ensuing Fiscal Year	\$208,000	\$207,990	\$251,662	\$403,959
Unexpended Surplus Funds	\$841,408	\$1,078,959	\$1,050,947	\$677,117
Unexpended Surplus as % of Ensuing Year's Appropriations	106%	151%	140%	92%

The Town has retained and/or accumulated excessive amounts of unexpended surplus fund balance in the general fund because the Board adopted budgets prior to 2011 that were not based on realistic estimates. For example, in the 2010 budget, actual revenues were \$98,661 or 19 percent more than the budgeted estimates while actual expenditures were \$101,087, or 14 percent less than the amount budgeted. Individual account estimates were not always realistic based on historical information. For example, even though actual sales tax revenue in 2008 was \$308,111, the Board budgeted \$245,000 for sales tax revenue for both 2009 and 2010, when actual revenues were \$404,274 and \$318,151 – a total of \$232,425 more than budgeted. Consistently underestimating revenues and overestimating appropriations has resulted in the accumulation and retention of surplus fund balance.

In addition, as indicated in Table 2, the Town used less surplus than budgeted prior to 2011. Therefore, surplus fund balance was not reduced by the amount that the Town had planned.

Table 2: Planned Deficits and Operating Results				
	2008	2009	2010	2011
Planned Surplus/(Deficit)	(\$250,000)	(\$208,000)	(\$207,990)	(\$251,662)
Operating Surplus/(Deficit)	\$154,789	\$237,745	(\$8,242)	(\$226,675)

The Board made an effort to reduce unexpended surplus funds by eliminating a general fund tax levy for the last two years. In addition, it created a more realistic budget for 2011. The Board has also hired a budget analyst to assist them with preparing budgets and planning for using and/or reserving unexpended surplus funds. It is important that the Board formally establish a plan to address the excessive fund balance in the general fund.

Long-Term Planning

An important Board oversight responsibility is to plan for the future by setting adequate long-term priorities and goals. To address this responsibility, it is important to develop comprehensive, multi-year financial and capital plans to estimate the future costs of ongoing services and future capital needs. Effective multi-year plans project operating and capital needs and financing sources over a three to five-year period. Planning on a multi-year basis allows Town officials to identify developing revenue and expenditure trends and set long-term priorities and goals. It also allows them to assess the impact and merits of alternative approaches to financial issues, such as accumulating money in reserve funds and the use of fund balance to finance operations. It is essential that any long-term financial plans are monitored and updated on an ongoing basis to ensure that decisions are guided by the most accurate information available.

The Board did not develop a comprehensive, multi-year financial and capital plan, nor did it have any other mechanism in place to adequately address the Town's long-term operational and capital needs. Such plans would be a useful tool for the Board to address the large fund balance in the general fund.

Officials indicated that it has been the practice of the Town to budget very conservatively to save for projects, equipment, or unforeseen emergencies, allowing the Town to remain debt free. However, because the Board did not formally establish reserves to restrict the use of the funds, subsequent administrations may use the fund balance for purposes other than what this and previous Boards intended.

Recommendations

1. The Board should adopt a policy and Town officials should develop procedures to ensure that the amount of unexpended surplus funds is reasonable.
2. Town officials should adopt balanced budgets with realistic estimates of anticipated revenues, expenditures, and fund balance available for appropriation.
3. The Board should use the unexpended surplus fund balance in the general fund in a manner that benefits Town taxpayers. Such uses could include, but are not limited to:

- Increasing or establishing necessary reserves
 - Financing one-time expenditures
 - Reducing property taxes.
4. The Board should develop long-term financial and capital plans that project operating and capital needs and financing sources for a three- to five-year period. If the Board believes it is necessary to accumulate money for a future, specifically planned purpose, it should formally establish authorized reserves as provided for in statute.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

TOWN OF LISBON
TOWN HALL
BOX 98
LISBON, NEW YORK 13658
315-393-0410 Town Supervisor
315-393-5988 Town Clerk
Website – www.lisbonny.net

Town Supervisor – James Armstrong
Town Clerk - Donna McBath
Highway Superintendent – Timothy Dow
Attorney – Charles Nash, Esq.

Town Councilmember – Alan Dailey
Town Councilmember – Nathanael Putney
Town Councilmember – Susan Duffy
Town Councilmember – Gary Jarvis

December 21, 2012

Response from Local Officials

The Town of Lisbon has used the fund balance as an unofficial reserve account to address one time purchases and unexpected expenses to prevent spikes in the tax rate for its citizens. For the past two years discussions concerning the use of reserve accounts have taken place during the budget process. Early in 2013, the Town of Lisbon Board will set up reserve accounts for the purchase of Highway Equipment and other specific needs of the Town. It is the goal of the Town Board to work on a long term financial and capital plan in 2013 to help with the appropriate use and monitoring of the reserve accounts.

Sincerely,

James W. Armstrong
Town of Lisbon Supervisor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To accomplish our audit objective, we interviewed appropriate Town officials and employees, tested selected records and transactions, and examined pertinent documents for the period January 1, 2010, through December 31, 2011. We also expanded our scope back to 2007 to review the Town's financial condition. Our examination included the following:

- We interviewed appropriate Town officials and reviewed pertinent documents, such as Town policies and Board minutes.
- We reviewed the Town's financial records, budgets, and annual reports.
- We analyzed the changes in fund balance of the general fund for 2007 through 2011 fiscal years to determine the Town's financial condition as of December 31, 2011.

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 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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