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November 12, 2014

Mr. Tom Garretson, Supervisor
Members of the Town Board
Town of Cherry Valley
2 Genesee Street
Cherry Valley, NY 13320

Report Number: B4-14-21

Dear Supervisor Garretson and Members of the Town Board:

Our Office has recently completed a review of the Town's preliminary budget for the 2015 fiscal year. The objective of the review was to provide an independent evaluation of the preliminary budget. Our review addressed the following question related to the Town budget for the 2015 fiscal year:

- Are the significant revenue and expenditure projections in the Town's preliminary budget reasonable?

To accomplish our objective in this review, we requested your preliminary budget, salary schedules, debt payment schedules and other pertinent information. We identified and examined significant estimated revenues and expenditures for reasonableness with an emphasis on significant and/or unrealistic increases or decreases. We analyzed, verified and/or corroborated trend data and estimates where appropriate. We identified any significant new or unusually high revenue or expenditure estimates, made appropriate inquiries and reviewed supporting documentation to determine the nature of the items and to assess whether the estimates were realistic and reasonable.

The scope of our review does not constitute an audit under generally accepted government auditing standards (GAGAS). We do not offer comments or make specific recommendations on public policy decisions, such as the type and level of services under consideration to be provided.

The preliminary budget package submitted for review for the fiscal year ending December 31, 2015 consisted of the following:

- Budget Cover
- 2015 Preliminary Budget
- Supplementary Information

The preliminary budget submitted to our Office is summarized as follows:

Fund	Appropriations and Provisions for Other Uses	Estimated Revenues	Appropriated Fund Balance	Real Property Taxes
General (Town-Wide)	\$910,556	\$503,365	\$0	\$407,191
Highway (Town-Wide)	\$351,043	\$160,900	\$0	\$190,143
Highway (Town-Outside-Village)	\$383,143	\$201,300	\$0	\$181,843

We performed this budget review because the Town was categorized as being in “moderate fiscal stress” in a report issued in September 2014 as part of the Comptroller’s Fiscal Stress Monitoring System (FSMS). Fiscal stress designations of FSMS are based solely on the annual financial statements (AUD) filed by the Town at year end. Based on the results of our review, we found that the significant revenue and expenditure projections in the preliminary budget are reasonable, except for the estimated revenues from Federal Emergency Management Agency (FEMA) reimbursements. Although the budget does slightly raise taxes for all funds, Town officials did not include a contingency amount in the budget, which would provide for anticipated events and could help to improve the Town’s financial position.

The preliminary budget includes estimated revenues for the highway town-outside-village fund from FEMA reimbursements totaling \$20,000.¹ This amount is included in the 2014 adopted budget, but has not yet been received. Town officials told us they were unsure when the funds will be received and, therefore, budgeted the revenue again in the 2015 budget.

However, Town officials should not include this as a revenue in 2015 and, instead, record this as a revenue for 2014. If the Town does not receive the reimbursements in 2014, Town officials should create a receivable at the end of the 2014 fiscal year. Otherwise, this lack of revenue would create a revenue shortfall in the 2014 budget, which would result in an unplanned decline in fund balance.

Tax Cap Compliance

The State Legislature and the Governor enacted Chapter 97 of the Laws of 2011 that established a tax levy limit on all local governments, which was effective beginning in the 2012 fiscal year. The law precludes local governments from adopting a budget that requires a tax levy that exceeds the prior year tax levy by more than 2 percent or the rate of inflation, whichever is less, unless the governing board adopts a local law to override the tax levy limitation.

¹ This reimbursement is related to expenditures incurred in 2013 due to flooding.

The Town has adopted a local law to override the tax levy limit in 2015. This local law allows the Town's preliminary budget to include a tax levy of \$779,117, which makes the 2015 tax levy an increase of 4 percent over the 2014 tax levy of \$747,773.

The Board has the responsibility to initiate corrective action to address the recommendations in this report. We request that you provide us with a copy of the adopted budget. In addition, pursuant to Section 35 of General Municipal Law, the Board should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days.

We encourage the Board to make this plan available for public review in the Town Clerk's office. For guidance in preparing your plan of action and filing this report, please refer to the attached documents.

We hope that this information is useful as you adopt the upcoming budget for the Town. If you have any questions on the scope of our work, please feel free to contact H. Todd Eames, Chief Examiner of the Binghamton Regional Office, at (607) 721-8306.

Very truly yours,

Gabriel F. Deyo

cc: Mary Beth Flint, Town Clerk
Andrew A. SanFilippo, Executive Deputy Comptroller