



# Town of Milford

## Financial Condition

### Report of Examination

Period Covered:

January 1, 2012 — August 27, 2013

2013M-355



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

March 2014

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 Milford, 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 Milford (Town) is located in Otsego County, has a population of approximately 3,000 and includes the Village of Milford within its boundaries. The Town provides various services for its residents, including street maintenance, fire protection and general government support. The Town's 2014 budget totaled \$1.2 million and was financed by real property taxes, sales tax, State aid and miscellaneous revenues. These revenues and expenditures are accounted for in four major operating funds: a town-wide general fund, a town-wide highway fund, a part-town general fund and a part-town highway fund. The Town also maintains a Lighting District Fund, Fire Protection District Fund and a Capital Projects Fund.

The Town is governed by an elected Town Board (Board) comprising the Town Supervisor (Supervisor) and four Board members. The Board is responsible for overseeing the Town's operations and finances, which includes ensuring that budgets are properly developed, controlled and amended throughout the year. The Supervisor, who serves as chief financial officer, is responsible for the day-to-day management of the Town under the direction of the Board and serves as budget officer. In November 2011, a new Supervisor was elected. Furthermore, in June 2012, the Board appointed a separate budget officer to help with the preparation of the 2013 budget. In October 2013, the Supervisor hired a bookkeeper to perform certain accounting functions, including maintaining accounting records, preparing bank reconciliations and processing payroll.

## Objective

The objective of our audit was to assess the Town's financial condition and to review the Town's budget procedures. Our audit addressed the following related question:

- Did the Board adopt realistic budgets?

## Scope and Methodology

We interviewed Town officials, examined financial records and reports and reviewed the Town's budgeting procedures for the period January 1, 2012 through August 27, 2013. We extended our scope back to 2009 to review the Town's financial condition and to conduct budget analyses. We also reviewed the results of operations and fund balance for the major operating funds as of December 31, 2013.

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 C 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. Except as indicated in Appendix A, Town officials generally agreed with our findings and indicated they plan to initiate corrective action. Appendix B includes our comments on some of the issues Town officials raised in their response.

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 adopting operating budgets that include estimates of expenditures for known and necessary purposes that are financed by sufficient recurring revenues. As they become reasonable and available, surplus fund balances may also be used as a financing source. However, since surpluses are finite, continuing Town operations should not be regularly financed by the use of surplus fund balances. Board members also should use historical data, such as prior years' actual results of operations, to guide them in making budget estimates. The levy of real property taxes should be the final consideration as a source to finance the Town's operations. Chapter 97 of the Laws of 2011 established a tax levy limit (property tax cap). Under this law, the total amount to be raised through property taxes charged on the Town's taxable assessed value of property is capped at 2 percent or the rate of inflation, whichever is less, with some exceptions. The Town has the ability to override the cap by passing a local law. Moreover, General Municipal Law (GML) authorizes a local government to temporarily advance moneys between funds with different tax bases. The moneys are to be repaid as soon as available, but no later than the close of the fiscal year in which the advance was made.

The Board adopted budgets that were not financed by sufficient recurring revenues. Instead, to keep the real property tax levy relatively level, the Board used unexpended surplus fund balance<sup>1</sup> to finance the Town's increasing expenditures. As a result, there were consistent operating deficits because expenditures exceeded revenues and consumed, to the point of depleting, unexpended surplus fund balance. The 2013 budget included the use of fund balance totaling \$70,734 in the town-wide highway fund and \$84,766 in the part-town highway fund, while \$50,123 and \$57,490, respectively, was available. Overall, the available fund balance in all four of the major operating funds has declined between 40 and 99 percent from fiscal years 2009 through 2013. When preparing the 2014 budget, Town officials appropriated more than \$104,000 in total fund balance in

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<sup>1</sup> The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: no spendable, 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 unrestricted, less any amounts appropriated for the ensuing year's budget (after Statement 54).

three of the Town's operating funds, but the part-town general fund and the town-wide highway fund did not have sufficient fund balance available to meet the appropriated amounts. As such, these two funds' deficits will increase. Further, the Board did not develop a multiyear financial plan. Had such a plan been in place, the Board would have been better able to monitor the use of fund balance before it was depleted.

While the spending for the Town's four operating funds was reasonably within budgeted appropriations, and those funds received more revenues than anticipated, the revenues were not sufficient to finance operations, as indicated in Table 1.

**Table 1: Actual Results of Operations**

Fund	Description	2009	2010	2011	2012	Unaudited 2013 <sup>a</sup>
<b>Town-Wide General Fund</b>						
	Revenues	\$260,249	\$235,522	\$189,544	\$215,378	\$433,623
	Expenditures	\$320,545	\$251,742	\$248,834	\$251,731	\$393,155
	Difference	(\$60,296)	(\$16,220)	(\$59,290)	(\$36,353)	\$40,468
<b>Part-Town General Fund</b>						
	Revenues	\$18,805	\$34,849	\$17,004	\$25,029	\$18,552
	Expenditures	\$30,597	\$36,664	\$30,152	\$40,086	\$33,595
	Difference	(\$11,792)	(\$1,815)	(\$13,148)	(\$15,057)	(\$15,043)
<b>Town-Wide Highway Fund</b>						
	Revenues	\$251,207	\$268,126	\$305,658	\$292,332	\$249,361
	Expenditures	\$279,167	\$304,306	\$305,519	\$265,271	\$278,647
	Difference	(\$27,960)	(\$36,180)	\$139	\$27,061	(\$29,286)
<b>Part-Town Highway Fund</b>						
	Revenues	\$262,060	\$264,683	\$295,158	\$311,719	\$296,673
	Expenditures	\$320,357	\$346,619	\$358,793	\$303,065	\$351,587
	Difference	(\$58,297)	(\$81,936)	(\$63,635)	\$8,654	(\$54,914)

<sup>a</sup> The "Unaudited 2013" fund balances and results of operations are calculated based on the 2012 AUD fund balance and revenues and expenditures per the Town's unaudited year-end budget vs. actual report, as of December 31, 2013. We also calculated the balance per bank statements (adjusted for outstanding items) as of December 31, 2013 to total \$131,442 for the four major funds.

The Board did not consider historical actual results when adopting its budgets from fiscal years 2009 through 2012. Also, in an effort to keep the real property tax levy low, the Board included the use of fund balance in each of its adopted budgets to finance operations from fiscal years 2009 through 2013. Except for the town-wide general



fund using \$9,400 more fund balance than planned<sup>2</sup> in 2009, each fund used less fund balance than planned for the 2009 through 2013 fiscal years. However, with its continued use, fund balance has been significantly depleted, as outlined in Table 2.

**Table 2: Fund Balance**

Fund	Description	2009	2010	2011	2012	Unaudited 2013 <sup>a</sup>
<b>Town-Wide General Fund</b>						
	Available	\$179,764	\$163,681	\$104,328	\$67,949	\$108,417
	Appropriated	\$72,000	\$118,000	\$130,726	\$68,454	\$54,150
	Remaining	\$107,764	\$45,681	(\$26,398)	(\$505)	\$54,267
<b>Part-Town General Fund</b>						
	Available	\$57,472	\$55,657	\$42,509	\$27,452	\$12,409
	Appropriated	\$20,825	\$20,625	\$19,765	\$25,015	\$15,797
	Remaining	\$36,647	\$35,032	\$22,744	\$2,437	(\$3,388)
<b>Town-Wide Highway Fund</b>						
	Available	\$58,054	\$22,923	\$23,062	\$50,123	\$20,837
	Appropriated	\$59,000	\$26,500	\$17,125	\$70,734	\$34,444
	Remaining	(\$946)	(\$3,577)	\$5,937	(\$20,611)	(\$13,607)
<b>Part-Town Highway Fund</b>						
	Available	\$194,407	\$112,471	\$48,836	\$57,490	\$2,576
	Appropriated	\$118,638	\$108,628	\$49,513	\$84,766	\$0
	Remaining	\$75,769	\$3,843	(\$677)	(\$27,276)	\$2,576

<sup>a</sup> The "Unaudited 2013" fund balances and results of operations are calculated based on the 2012 AUD fund balance and revenues and expenditures per the Town's unaudited year-end budget vs. actual report, as of December 31, 2013. We also calculated the balance per bank statements (adjusted for outstanding items) as of December 31, 2013 to total \$131,442 for the four major funds.

The Board adopted a budget for 2013 that again used fund balance to finance operations. However, the town-wide general fund and the two highway funds did not have the amount of fund balance available that the Board had planned to use.<sup>3</sup> Moreover, the available fund balance for the part-town general fund and the two highway funds has also been depleted to well below the average amounts used as a financing source in adopted budgets and is now close to being depleted. Also, when preparing the 2014 budget, Town officials appropriated \$54,150 in the town-wide general fund, \$15,797 in the part-town general fund,

<sup>2</sup> A planned operating deficit occurs when a municipality purposely adopts a budget in which expenditures are greater than anticipated revenues, with the difference to be funded with appropriations from fund balance.

<sup>3</sup> At the beginning of the 2013 fiscal year, Town officials noticed the over appropriation and discussed decreasing certain appropriations that were originally overestimated; however, there were no formal amendments to the budget.



and \$34,444 in the town-wide highway fund. However, the part-town general fund and the town-wide highway fund did not have the entire amount of available fund balance to appropriate and could incur fund balance deficits.

Additionally, Town officials used an interfund transfer totaling \$146,000 from the town-wide general fund to finance operations for the part-town highway fund in 2013. This interfund advance inappropriately crossed the tax bases, which led to taxpayer inequity. It is important that the improper interfund transfer be repaid as soon as possible and recorded as an interfund liability until it is repaid. This liability will further reduce the fund balance in the part-town highway fund.

The Board adopted budgets from 2009 through 2012 which appropriated fund balances in the four major operating funds that averaged 79 percent of the 2013 total real property tax levy and 22 percent of the operating funds' total 2013 appropriations. The Board continued to appropriate fund balance that it did not have in the 2014 budget. The Board's overreliance on fund balance as a financing source kept the tax levy artificially low during these years and ultimately exhausted fund balance. The exhaustion of fund balance will have a significant impact on the financing of future budgets and the ability to maintain current service levels.

With less available fund balance to finance operations, the Town passed a local law to override the 2 percent property tax cap for the 2014 budget and increased taxes by 6.4 percent. To avoid overriding the tax cap in future years' budgets, the Board will likely need to develop budgets that have other financing sources to ensure services will continue to be provided to Town residents at the current level. Otherwise, reducing expenditures and service levels will be the only option for the Town to avoid severe fiscal stress.

Multiyear Financial Plan – 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, multiyear financial and capital plans to estimate the future costs of ongoing services and future capital needs. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period. Planning on a multiyear 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 unexpended surplus funds 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, multiyear 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 have been a useful tool for the Board to monitor fund balance and determine other sources of financing before fund balance was exhausted.

## **Recommendations**

1. The Board should not rely on one-time revenue sources, such as appropriated fund balance, to fund recurring expenditures.
2. The Board should only appropriate available fund balance in the budget. To calculate available fund balance, Town officials should consider the remaining expenditures for the fiscal year as well as other obligations of the respective funds.
3. The Board should utilize budget development tools during its budget development process to ensure that it is adopting realistic budgets that are also based on historical data.<sup>4</sup>
4. The Board should ensure that moneys are repaid to the town-wide general fund that were inappropriately transferred to a fund with a different tax base.
5. The Board should develop and implement a comprehensive multiyear financial plan.

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<sup>4</sup> For budget planning and guidance, refer to our website: <http://www.osc.state.ny.us/localgov/planbudget/index.htm>

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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

**Town of Milford**  
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[mrchrisharmon@gmail.com](mailto:mrchrisharmon@gmail.com)

**Town of Milford Comments on the Report of Examination**

The town of Milford agrees with the findings of the report from the Comptroller, specifically the use of unappropriated fund balances for recurring expenditures. The reality is that the Town of Milford is clearly not in a good financial position. Recognizing this, we are taking appropriate steps to put the town back on solid financial footing. To understand our use of the unappropriated fund balance, it is important to understand the recent history of the town. From 1994 to 2012 the town made no increases to the property tax levy while costs for fuel, equipment, fire control, etc. continued to increase. This was primarily due to the former Supervisor's practice of keeping the tax levy low by relying on the unappropriated fund balance. The former Supervisor also acted as the Budget Control Officer and the Bookkeeper starting in 2005, and failed to provide monthly financial reports to the board so that informed decisions were unable to be made. As the bookkeeper, he maintained a complex manual financial recording system that was not transparent nor helpful in understanding the financial status of the town. Several other town officials including Board Members, Justices, and the Assessor spoke with the Supervisor about a need for an increase in the tax levy and a revaluation. They were ignored.

In 2012 a new Supervisor was elected and the bookkeeping for the town was moved into a computerized system that provides transparency and monthly financial reports for the board. This new administration recognized that the town was not receiving enough revenue, which necessitated a property tax increase of 2%, which was the property tax cap limit for 2013. This occurred during a down time in the economy when town officials were particularly concerned with hammering their citizens. In 2014 taxes were increased by 6.4%, passing a local law to permit exceeding the property tax increase cap, so that the town would have enough fund balance to assist with paying for a revaluation.

As mentioned in the Scope and Methodology, the Comptroller interviewed Town officials. In many of these interviews town officials told the comptroller that the town's financial situation can be traced to the former administration and the lack of increasing the tax levy for 18 years. In fact, the former administration lowered taxes by 6% and then by another 2%, and then there were no increases until 2013 when the new administration came into office. But the comptroller fails to recognize this and only takes a snapshot of the town's financial situation rather than looking at the bigger picture.

See  
Note 1  
Page 14

What is even more frustrating is that in 2013 after the new Administration was elected, the Comptroller was contacted by the Town Clerk, the Highway Superintendent and a Town Board Member requesting that they come to the town and examine the town's financial situation and look for any potential wrong-doing on the part of the previous Supervisor. The Comptroller came to the Town and was provided with all of the prior financials for their review. They looked through these files and advised us that there were, indeed, some red flags. Thereafter the comptroller returned a few times and reviewed more files and vouchers. They told us they were mainly interested in the process of the Town's financial management. However, when they saw what the Town was doing in changing the recording and reporting process they determined there was no more need for their involvement.

See  
Note 2  
Page 14

At no time did anyone from the Comptroller talk to the Town about our budget process, our use of the unappropriated fund balance, or our lack of long range financial planning. Now, the comptroller has returned to

Chris Harmon



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the Town of Milford and again reviewing our records in a piecemeal fashion. As an aside, we find it somewhat ironic that the Comptroller recommends that the town develop and implement a comprehensive financial plan while not having a comprehensive process of its own for reviewing a town's financial condition.

See  
Note 3  
Page 14

If the "...objective of (the) audit was to assess the Town's financial condition..." then why is there no mention of a revaluation for the town? The Town of Milford has not conducted a revaluation for twenty years and we are now looking at the prospect of finding the \$120,000 required to fund it. Simply asking the question "Did the Board adopt realistic Budgets?" does not fully assess our condition.

See  
Note 4  
Page 14

We completely agree that the Board adopted budgets that were not financed by sufficient recurring revenue and that in order to maintain low property taxes the Board used unexpended surplus fund balance to finance the town's increasing expenditures. But the period of time that the comptroller reviewed; January 2012 through August 2013, does not provide a full picture of the changes that the new administration has undertaken to put the town back on the right track.

The report states "When preparing the 2014 budget, Town officials appropriated more than \$104,000 in total fund balance in three of the Town's operating funds, but the funds will not likely have these amounts to appropriate." In reality the town ended the fiscal year of 2013 with \$133,875 in fund balance.

See  
Note 5  
Page 14

The report states that "the Board did not consider historical actual results when adopting budgets from fiscal years 2009 through 2012." Yet the report fails to mention that in 2013 and in 2014, under the new administration, the board did just that. We find this misleading by the comptroller as the report fails to recognize that changes have already begun.

The report states that "when preparing the 2014 budget, town officials appropriated \$54,150 in the town-wide general fund, \$15,797 in the part-town general fund, and \$34,444 in the town-wide highway fund. As none of these funds had the entire amount of available fund balance to appropriate, they could incur fund balance deficits." As stated above, the town ended the year with \$133,875 in fund balance. This is more than the \$104,391 the town appropriated in the 2014 budget.

See  
Note 5  
Page 14

The town acknowledges the unknowing mistake of depositing Sales Tax in the General A Fund and transferring it to the Highway DB Fund. The new administration was given misinformation on the transfer of funds from the A fund to other funds and the transfer of funds between the highway funds. The board now knows the correct procedure and we will endeavor to pay back the improper inter-fund transfer.

The report states "The Board continued to appropriate fund balance that it did not have in the 2014 budget." As stated above, this statement is inaccurate as we ended the fiscal year 2013 with more fund balance (\$133,875) than we appropriated in 2014 (\$104,391).

See  
Note 5  
Page 14

The report states "To avoid overriding the tax cap in future years' budgets, the Board will need to develop budgets that have other financing sources to ensure services will continue to be provided to Town residents at the current level. Otherwise, reducing expenditures and service levels will be the only option for the town to avoid severe fiscal stress." When we asked the Comptroller what other financing sources they would recommend, they asked if we had any properties for sale. Of the two properties the town has, one is only a three acre parcel that has been used as a green dump in the past and the other is a residential property adjacent

Chris Harmon



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to the Town Hall that was designated to be a parking lot. We are in the process of selling this residential property to help fund a revaluation. Neither of these properties will provide enough income to the town to solve its fiscal problems.

Our 2014 budget shows reductions in expenditures, yet these go unmentioned in the Comptroller's report. The following cuts were made: Town Board -5%; Justices -2%; Supervisor -3%; Tax Collector -3%; Assessor -5%; Town Clerk -8%; Town Attorney -11%; Buildings -14%. We increased the Contingency Account from \$3,000 to \$10,000 in case some of these budget cuts were too extreme. If we do not use our Contingency we will see an overall 9% decrease in General Government Support. In addition, no raises were given to any of the Town Staff. We also lowered Total Public Safety costs by 21% and total expenditures in General B was 28% lower, total expenditures for Highway DA was 1% lower and Highway DB was 8% lower.

The reality is that to build a reasonable unappropriated fund balance and to ensure that adequate recurring revenue is available for recurring expenses, the town needs to increase its tax levy. There is really no other viable alternative. The Comptroller never mentions the option of increasing the tax levy because the Comptroller suffers from being a political entity rather than an objective one.

We agree that the Town of Milford has never developed a comprehensive, multiyear financial and capital plan but we will be addressing this issue this year.

The Town of Milford agrees with Recommendation number one that we should not rely on one-time revenue sources to fund recurring expenditures.

The Town of Milford agrees with Recommendation number two; to only appropriate available fund balance in the budget. We were much better at estimating available fund balance for 2014 than we were for 2013 because the proper financial information was available.

The Town of Milford agrees with Recommendation number three to utilize budget development tools during our budget process. We will certainly look at multiyear financial planning. However, the report fails to recognize that the Town of Milford did develop budget tools to look at historic revenue and expenditures and to provide that data to the appropriate town offices.

The Town of Milford agrees with Recommendation number four to ensure that moneys are repaid to the town-wide general fund.

The Town of Milford agrees with Recommendation number five to develop and implement a comprehensive multiyear financial plan.

Chris Harmon

## **APPENDIX B**

### **OSC COMMENTS ON THE TOWN'S RESPONSE**

#### **Note 1**

The audit report reflects the Town's repeated use of fund balance to finance operations in an effort to keep the real property tax levy low over the last five years.

#### **Note 2**

A previous audit, relating to a different focus, was started in 2012 (not in 2013) and was canceled shortly thereafter. We did not discuss the Town's financial condition during the previous audit because it was not a part of that audit's scope.

#### **Note 3**

Our audit reflects the Supervisor's and Town Board's need to improve their financial planning practices to avoid further financial stress to the Town.

#### **Note 4**

A revaluation of the Town's real property assessments may serve to ensure more taxpayer equity for the real property taxes levied, and is therefore a very important issue to consider. However, Town officials' budgeting practices that could result in unrealistic real property tax levies rises to a higher priority and should be addressed immediately.

#### **Note 5**

The Supervisor and Town Board should consider the financial condition of each fund individually in accordance with statute and required accounting practices. The Supervisor and Board adopted budgets for the 2014 fiscal year that planned to use more fund balance than is actually available for both the part-town general fund and the town-wide highway fund, as outlined in Table 2 of the report. This information was updated in the report to reflect actual 2013 year-end information provided to us at the exit conference.



## **APPENDIX C**

### **AUDIT METHODOLOGY AND STANDARDS**

We reviewed the Town's financial condition for the period January 1, 2012 through August 27, 2013. We expanded our scope to include a historical review of the Town's financial condition and budgeting practices from January 1, 2009 through December 31, 2013. To accomplish our audit objective and obtain valid and relevant audit evidence, we interviewed appropriate Town officials, tested selected records and transactions, examined pertinent documents and performed the following audit procedures:

- We interviewed appropriate Town officials to obtain an understanding of the Town's budget development and monitoring processes.
- We reviewed the Board minutes from January 2009 through August 2013 to obtain information regarding the budget reporting activities and the Board's oversight of the Town's daily operations, including budget monitoring.
- We reviewed budget-to-actual variances in excess of 10 percent for revenues and expenditures for the four major operating funds from fiscal years 2009 through 2012 and as of August 2013, and we made inquiries regarding any noted deficiencies.
- We compared the 2012 budget to the 2011 actual results of operations and the 2013 budget to the 2012 actual results of operations and made inquiries of Town officials for variances in excess of 10 percent for revenues and expenditures.
- We compared appropriated fund balance amounts to the amount of fund balance available and determined whether more fund balance was appropriated than was available from fiscal years 2009 through 2013.
- We calculated, for the four major operating funds, the unexpended surplus fund balance as a percentage of the ensuing year's appropriations from fiscal years 2009 through 2012.
- We calculated the operating surplus/deficit from fiscal years 2009 through 2012 for the four major operating funds and determined whether any operating deficits were planned.
- We analyzed from fiscal years 2009 through 2012 the major revenue source in the budget during years that real property tax rate was not increased.
- We analyzed, for the four major operating funds, whether a declining tax rate was contributing to the decline in fund balance for these funds.
- We determined whether the Board was properly transferring money between funds in accordance with statute.

- We calculated the fund balances and results of operations using the budget-to-actual reports, bank statements, and cash summary reports as of December 31, 2013 for the four major operating funds.
- We performed various data reliability steps, including comparing the cash balance per the general ledger to the cash balance reported on the annual financial report. We also verified the cash balances as of August 2013 to the financial accounting system and bank reconciliations. In addition, we reviewed documentation to ensure that 2012 balance sheet items were being reported correctly.

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 D**

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