



# Village of Unadilla

## Budgeting

### Report of Examination

Period Covered:

June 1, 2011 — March 13, 2013

2013M-143



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**

August 2013

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 Village 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 Village of Unadilla, entitled Budgeting. 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 Village of Unadilla (Village) is located in Otsego County and has approximately 1,125 residents. The Village provides library, water, and general government services to its residents. These services are financed mainly by real property taxes, State aid, and user fees. The Village is governed by an elected five-member Board of Trustees (Board), which is composed of a Mayor and four Trustees.

The Board is responsible for the general management of the Village's finances. The Village employs a Clerk-Treasurer who serves as the Village's Budget Officer and is responsible for preparing the annual budget. The Board and the Mayor are responsible for making sound financial decisions that are in the best interest of the Village and the taxpayers. The Board and the Mayor are also responsible for developing and monitoring the annual budget.

The Village's budgeted appropriations were \$684,497 for the general fund, \$243,285 for the water fund, and \$19,535 for the library fund for the 2012-13 fiscal year. The Village was affected by two floods, one flood was in 2006 and the other was in 2011. The Village received Federal emergency management aid (FEMA) for both floods.

## Objective

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

- Did the Board adopt reasonable budgets?

## Scope and Methodology

We examined the Village's budgeting practices for the period of June 1, 2011, to March 13, 2013. We extended our audit period back to the 2006-07 fiscal year to analyze fund balance.

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 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 take 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 Village Board to make this plan available for public review in the Village Clerk-Treasurer's office.

# Budgeting

The Board is responsible for making sound financial decisions that are in the best interest of the Village and the taxpayers. The Board must adopt structurally balanced budgets that provide for sufficient recurring revenues to finance recurring expenditures. The budget should be developed using the most current and accurate information available. Before fund balance is appropriated for the next year's budget the Board should estimate what the year-end fund balance will be. A negative or low level of fund balance can affect the Village's ability to provide services at current levels and provides no cushion for cash flow or unexpected events. The Board must also monitor the budget throughout the year and cut back on expenditures or amend the budget when revenue estimates are not being realized or expenditures reach the amounts originally appropriated.

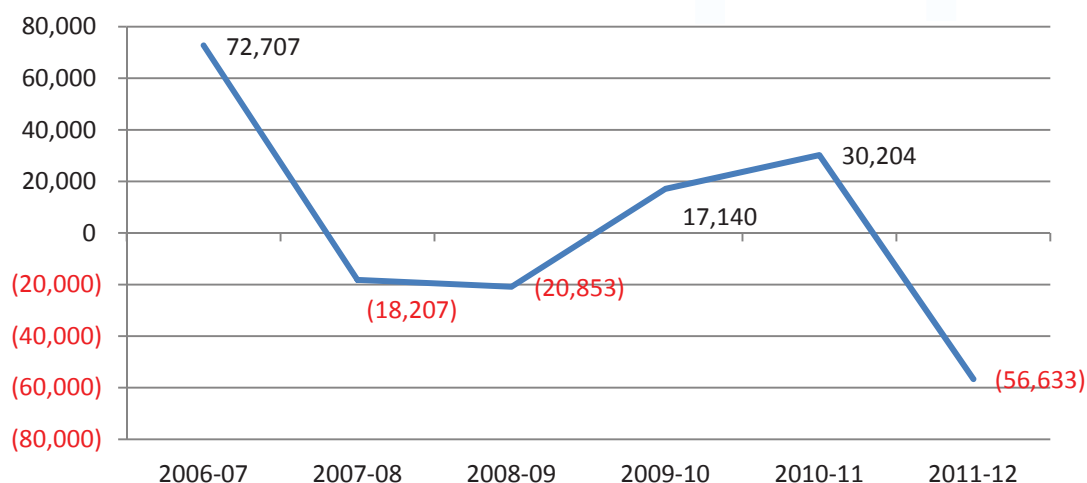
The Board consistently adopted budgets that included overestimated expenditures, underestimated revenues, and the appropriation of fund balance to finance operations; however, for three of the last six years, these appropriated funds were not available. As of May 31, 2012, the Village's general fund balance<sup>1</sup> was at a deficit of \$56,633, after the planned use of \$94,653 to finance operations. We project the available surplus funds, at the end of the 2012-13 fiscal year to be approximately \$25,500.

<b>Table 1: General Fund - Operating Results and Fund Balance</b>						
<b>Year Ending May 31</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>
Beginning Total Fund Balance	\$146,991	\$192,435	\$108,531	\$103,546	\$165,559	\$115,450
Revenues	\$610,753	\$656,957	\$549,022	\$656,150	\$543,021	\$573,543
Expenditures	\$565,309	\$740,861	\$554,007	\$594,137	\$593,130	\$650,973
Operating Surplus/(Deficit)	\$45,444	(\$83,904)	(\$4,985)	\$62,013	(\$50,109)	(\$77,430)
<b>Year-End Total Fund Balance</b>	<b>\$192,435</b>	<b>\$108,531</b>	<b>\$103,546</b>	<b>\$165,559</b>	<b>\$115,450</b>	<b>\$38,020</b>
Less: Amount Appropriated to Next Year's Budget	\$119,728	\$126,738	\$124,399	\$148,419	\$85,246	\$94,653
<b>Ending Unexpended Surplus/(Deficit) Fund Balance</b>	<b>\$72,707</b>	<b>(\$18,207)</b>	<b>(\$20,853)</b>	<b>\$17,140</b>	<b>\$30,204</b>	<b>(\$56,633)</b>

<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: 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).

These poor budgeting practices caused major fluctuations in the unexpended surplus fund balance and demonstrate a lack of financial oversight by the Board.

**Chart 1: General Fund Unexpected Surplus**



During these years, actual revenues received were \$350,587 more than estimated in the budget and actual expenditures were \$240,317 less than budgeted. The variances for revenues ranged from a 26 percent surplus to a 0.3 percent shortfall, and expenditures were consistently less than estimates by as much as 18 percent.

**Table 2: General Fund Revenues and Expenditures**

Year Ending May 31	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Estimated Revenues	\$522,272	\$522,678	\$550,752	\$558,811	\$537,603	\$546,743
Actual Revenues	\$610,753	\$656,957	\$549,022	\$656,150	\$543,021	\$573,543
<b>Variance</b>	<b>(\$88,481)</b>	<b>(\$134,279)</b>	<b>\$1,730</b>	<b>(\$97,339)</b>	<b>(\$5,418)</b>	<b>(\$26,800)</b>
Appropriations	\$617,617	\$642,406	\$677,490	\$683,210	\$686,022	\$631,989
Actual Expenditures	\$565,309	\$740,861	\$554,007	\$594,137	\$593,130	\$650,973
<b>Variance</b>	<b>\$52,308</b>	<b>(\$98,455)</b>	<b>\$123,483</b>	<b>\$89,073</b>	<b>\$92,892</b>	<b>(\$18,984)</b>

These variances are amplified after considering revenues and expenditures related to flood damage. During this period (excluding flood-related activity) the Village received approximately \$87,800 more than the Board had anticipated and spent approximately \$429,771 less than planned. Since 2006, the Village officials spent \$73,291 less than they received in aid and reimbursements for flood recovery activities. We found similar problems in the water and the library funds.

These budgetary variances were caused by the Board's failure to consider historical revenues and expenditures and/or current known

needs as it developed the budgets, and the Board did not effectively monitor the actual results against operating budgets during the year. For example, in 2007, the Board budgeted revenues to be 17 percent less than what was actually received. In 2008, the Board estimated revenues to be 26 percent less than what was actually received and estimated expenditures to be 15 percent less than actual expenditures. In 2009, the Board estimated general fund expenditures to be 18 percent more than they actually were. In 2010, the Board again estimated revenues 17 percent less than what was received and estimated expenditures to be 13 percent more than the actual amount. Moreover, the Board consistently planned to use fund balance as a financing source in order to keep the real property tax levy at a minimum.

Surplus fund balance is no longer available for use as a financing source for Village operations. The Board will be faced with decisions of reducing expenditures or identifying revenues or other financing sources. The most recent use of fund balance (approximately \$94,000 for the 2012-13 fiscal year) represents more than 25 percent of that year's real property tax levy. Any plans to replace that financing with an increase to real property taxes will likely be limited by the Real Property Tax Cap law, which limits any year-to-year increase to 2 percent of the prior year's tax, or the rate of inflation, whichever is less, with some exceptions.

## **Recommendations**

1. The Board should adopt realistic budgets that are based on the previous years' trends in actual revenues and expenditures.
2. The Board should estimate their ending fund balance, avoid plans to use more than they have available, and maintain it at a sustainable level.
3. The Board should monitor Village budgets and amend budgets or reduce spending when revenue estimates are not being realized or expenditures reach the amounts appropriated.



## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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

*"The Village Beautiful"*  
Home of Troop 1, B. S. A.



# VILLAGE OF UNADILLA

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Chief Examiner  
NYS Office of the State Comptroller  
Division of local government and school accountability  
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The Unadilla Village Board would like to thank the state comptroller's office for reviewing their records and providing recommendations to make our budgets better. We accept the findings with the following feedback.

1) The Village Board is made up of five elected community members wanting to serve the area and its residents. None of us are accounting experts. More guidance of responsibilities and duties for newly elected board members from your office would be very helpful.

2) Your audit guidelines look at us the same way it does a big city having many departments and employees. You need to consider that we are a small office with very few employees that talk on a daily basis and make decisions and monitor our finances throughout the year. The budget is reviewed and decisions made when needed on a monthly basis at our board meeting.

3) The Board of this small village has changed five times or more in the span of your audit. During this time each Board thoroughly reviewed each budget and passed what they considered a reasonable and accurate budget based on previous budgets and history they had. The Boards have been using the fund balance to balance the budget and keep taxes low for more than 15 years. In the last two years the current Board has worked hard to reduce the use of the fund balance and make our budgets tighter and more accurate.

4) As mentioned in your report within your audit. The village has worked through two floods and a major water project in the last six years. These created many financial challenges and unexpected / unbudgeted expenses and revenues that have lowered our fund balances to a less than ideal level. This created the data swings in your table 2.

See  
Note 1  
Page 10

Using the information provided the board now has guidance and direction to set new goals and prepare a budget to reach them. We will never be accounting experts but we all have the same goal in mind: to do what's best for our community.

Sincerely,

The Unadilla Village Board

David Welch Mayor

## **APPENDIX B**

### **OSC COMMENT ON THE VILLAGE'S RESPONSE**

#### Note 1

Table 2 referred to in the Village's response has been relabeled Chart 1 in this report.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to examine the Village's financial condition for the period of June 1, 2011, to March 13, 2013. We expanded our scope back to include June 1, 2007, to current to analyze financial condition and reviewed the 2012-13 budget to assess trends.

- We performed a budget versus actual analysis (total budgeted revenues minus total actual revenues and total appropriations minus total expenses) for a six year period (fiscal years 2007–2012).
- We analyzed the trends in the Village fund balance for the general, water, and library funds for a six year period (2007-2012). We verified the use of appropriated fund balance by analyzing data reported to the Office of the State Comptroller by Village officials. We also calculated the amount of fund balance appropriated as a financing source and determined if that amount was available and sufficient for appropriations for a six year period (fiscal years 2007–2012).
- We made inquiries to Village officials to gain an understanding of the Village's capital planning process and budget development process. We reviewed reports provided to the Board.
- We calculated the Village's sustained operating surpluses or deficits by comparing revenues to expenditures received from flood-related events for each year and then deducted flood-related revenues and expenditures to determine what the operating results would have been without the flooding events. We also reviewed FEMA paperwork to verify the total amount claimed as expenditures by year.
- We summarized increases in the Village real property tax rates and the total tax levy and performed an analysis of Village tax rates for a six year period (fiscal years 2007-2011) to verify action was taken by officials concerning the Village financial condition.
- We obtained February 28, 2013, year-to-date financial information and performed projections of general fund revenues, expenditures, and available fund balance through May 31, 2013. We projected the total expenditures for the 2012-13 fiscal year by annualizing the actual expenditures through February 28, 2013. We projected total revenues for the 2012-13 fiscal year by reviewing the actual revenues as of February 28, 2013, and adding revenues expected to be received by the end the 2012-13 fiscal year. We projected the available fund balance for the 2012-13 fiscal year by deducting the projected expenditures from projected revenues and adding the fund balance available at the beginning of the 2012-13 fiscal year.

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.

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