



# Village of Fort Ann

## Financial Condition

### Report of Examination

Period Covered:

March 1, 2011 — February 28, 2014

2014M-197



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**

November 2014

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 Fort Ann 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 Village of Fort Ann (Village) is located in Washington County and has a population of approximately 490 residents. The Village provides various services to its residents including water and sewer services, street maintenance, snow removal and general government support. The Village's general fund budget for the 2013-14 fiscal year<sup>1</sup> was \$106,611, which was funded primarily with property taxes and State aid. The Village's budgeted appropriations for the year were approximately \$49,800 for the water fund and \$63,000 for the sewer fund, which were funded primarily through user fees.

The Village Board (Board) is comprised of two elected Trustees and an elected Mayor. The Board is the legislative body responsible for the general management and control of the Village's financial affairs. It is also responsible for developing and adopting the annual budget for the general, water and sewer funds and establishing financial policies and procedures. The Board has the power to levy taxes on real property located in the Village, set water and sewer rates and issue debt.

The Mayor is the Village's chief executive officer and the Treasurer is the chief fiscal officer. The Clerk is responsible for the collection of property taxes and water and sewer rents and remitting these collections to the Treasurer. The Treasurer is responsible for preparing, maintaining and reporting all necessary financial information.

## Objective

The objective of our audit was to evaluate the Village's financial condition and addressed the following related question:

- Did the Board adopt realistic budgets and take appropriate actions to maintain the Village's financial stability?

## Scope and Methodology

We examined the Village's financial condition from March 1, 2011 through February 28, 2014.

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 B 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

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<sup>1</sup> The Village's fiscal year is from March 1 through February 28.

generally agreed with our recommendations and indicated they planned to initiate 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 New York State 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 Village Clerk's office.

## Financial Condition

The Board is responsible for making sound financial decisions that are in the best interests of the Village and the taxpayers. This requires the Board to balance the level of services desired and expected by Village residents with the ability and willingness of the residents to pay for such services. Therefore, it is essential that the Village adopt realistic and structurally balanced budgets that contain realistic appropriations and the resources available to fund them. Additionally, Village officials should ensure that the level of fund balance maintained is reasonable to provide for unanticipated contingencies that may arise throughout the year.

A multiyear financial plan helps a local government assess expenditure commitments, revenue trends, financial risks and the affordability of new services and capital improvements. Furthermore, establishing and funding reserves<sup>2</sup> may help to avoid large increases in taxes and user fees resulting from unforeseen repairs or capital improvements and also increases transparency related to the intended use of revenues collected. Lastly, the Board should ensure that interfund loans between its operating funds are repaid as soon as possible but no later than the end of the fiscal year.

The Board should improve its budget development practices. The Board consistently appropriated excessive amounts of fund balance in the general fund to finance operations which caused this fund to be in fiscal stress at the end of the 2013-14 fiscal year. The Board also intentionally overestimated expenditures for the water and sewer funds with the intention of increasing the levels of fund balance to guard against unforeseen repairs and finance future capital costs. This has led to both funds having excessive levels of fund balance and budgets that are not transparent to the residents. Also, moneys belonging to the water and sewer funds have been improperly retained by the general fund, creating an interfund obligation from the general fund to the water and sewer funds for which the general fund does not have adequate cash levels to repay.

General Fund – We examined the budgets and corresponding results of operations for the 2011-12 through 2013-14 fiscal years and found that the Board adopted budgets that appropriated all of the available fund balance or more fund balance than was available. For example, at the beginning of the 2011-12 fiscal year, the total fund balance was \$19,687, of which \$15,484 was used to finance operations, causing

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<sup>2</sup> Reserve funds provide a mechanism for legally saving money to finance all or part of future infrastructure, equipment and other allowable purposes.

the fund balance to decrease to \$4,203 at the end of the fiscal year. Despite this, the Board appropriated \$15,000 of fund balance to finance operations in 2012-13, creating a budgetary deficit of \$10,797 for the 2012-13 fiscal year, as shown in Figure 1. The Board also appropriated nearly all of the available fund balance for the 2013-14 fiscal year. Although the Village incurred an operating deficit of \$24,697 for the 2013-14 fiscal year and ended the year with a deficit fund balance totaling \$15,102, the Board appropriated \$8,000 of fund balance for the next year's budget, creating a budgetary deficit of \$23,102.

<b>Figure 1: General Fund – Operating Results and Fund Balance</b>			
	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>
Revenues	\$102,792	\$100,601	\$95,381
Less: Expenditures	\$118,276	\$95,209	\$120,078
<b>Operating (Deficit)/Surplus</b>	<b>(\$15,484)</b>	<b>\$5,392</b>	<b>(\$24,697)<sup>a</sup></b>
Beginning Fund Balance	\$19,687	\$4,203	\$9,595
Operating (Deficit)/Surplus	(\$15,484)	\$5,392	(\$24,697) <sup>b</sup>
<b>Ending Fund Balance</b>	<b>\$4,203</b>	<b>\$9,595</b>	<b>(\$15,102)</b>
Less: Fund Balance Appropriated to Finance Next Year's Operations	\$15,000	\$9,100	\$8,000
<b>Unexpended Fund Balance (Deficit)/(Budgetary Deficit)</b>	<b>(\$10,797)</b>	<b>\$495</b>	<b>(\$23,102)</b>

<sup>a</sup> The revenue total for the 2012-13 fiscal year was decreased from what the Village had reported in its records because the Village incorrectly recorded delinquent water and sewer collections for the 2011-12 fiscal year as property tax revenue of \$22,266 in the general fund in 2012-13.

<sup>b</sup> The operating deficit for the 2013-14 fiscal year was mainly the result of the unbudgeted payment of \$25,000 for the Village's share of a joint streetscape project with the Town of Fort Ann.

In addition, relieved water and sewer billings<sup>3</sup> for the 2012-13 and 2013-14 fiscal years, totaling \$29,387, were incorrectly retained and used by the general fund to finance its operations instead of being remitted to the water and sewer funds. As a result, the general fund has an unrecorded liability to the water and sewer funds for the relieved billings. Furthermore, the Board did not budget for a \$25,000 payment to the Town for a joint streetscape project in the 2013-14 fiscal year. Due to a lack of surplus funds, the general fund borrowed \$25,000 from the water fund to make the payment to the Town. The combination of retaining and using the relieved water and sewer billings along with borrowing money from the water fund resulted in the general fund owing the water and sewer funds a total of \$31,252 at the end of 2012-13 and \$67,798 at the end of the 2013-14 fiscal

<sup>3</sup> When water and sewer bills remain unpaid for a certain duration of time, the unpaid amounts will be added to the customers' tax bills; these unpaid amounts are referred to as "relieved" amounts.

years. The year-end general fund cash balances were \$26,840 for 2012-13 and \$48,928 for 2013-14, which were insufficient to repay the amounts due to the water and sewer funds.

The combination of appropriating excessive amounts of fund balance to finance operations, failing to budget for a significant payment to the Town and developing a large liability for relieved rents to the water and sewer funds has resulted in the general fund having a fund deficit of \$15,102 at the end the 2013-14 fiscal year and putting the general fund in fiscal stress.

Water Fund – We examined the budgets and corresponding results of operations for the 2011-12 through 2013-14 fiscal years and found that the Board overestimated appropriations, and, although the fund had a substantial operating deficit in 2011-12 due to a water main break, the fund balance grew from \$59,726 at the end of 2011-12 to \$84,207 at the end of 2013-14. The fund balance is excessive in comparison to the fund’s annual appropriations of about \$50,000.

In the 2011-12 fiscal year, there were several water main breaks that cost approximately \$20,000 to repair. Since the fund balance at the beginning of the year was \$84,147, of which none was appropriated to finance operations for the year, the fund was able to absorb the cost of the repairs and still end the year with \$59,726 in fund balance. This was 121 percent of the next year’s budgeted appropriations. Also, the Board overestimated appropriations for the 2012-13 fiscal year by \$15,264 (or 31 percent) and for the 2013-14 fiscal year by \$7,633 (or 15 percent), including \$6,000 each year for equipment and capital outlay. Due to the overestimation of appropriations and corresponding operating surpluses in 2012-13 and 2013-14, the fund balance increased to 151 percent and 168 percent of the subsequent year’s appropriations for these two fiscal years.



<b>Figure 2: Water Fund – Operating Results and Fund Balance</b>			
	2011-12	2012-13	2013-14
Revenues	\$43,391	\$49,624	\$51,060
Expenditures	\$67,812	\$34,036	\$42,167
<b>Operating (Deficit)/Surplus</b>	<b>(\$24,421)</b>	<b>\$15,588</b>	<b>\$8,893</b>
Beginning Fund Balance	\$84,147	\$59,726	\$75,314
Operating (Deficit)/Surplus	(\$24,421)	\$15,588	\$8,893
<b>Ending Fund Balance</b>	<b>\$59,726</b>	<b>\$75,314<sup>a</sup></b>	<b>\$84,207</b>
Next Year's Budgeted Appropriations	\$49,300	\$49,800	\$50,200
<b>Unexpended Fund Balance as a Percentage of Next Year's Budgeted Appropriations</b>	<b>121%</b>	<b>151%</b>	<b>168%</b>

<sup>a</sup> The 2012-13 fund balance was adjusted from what the Village reported in its records due to the impact of the general fund retaining moneys collected for delinquent water bills.

Sewer Fund – We examined the budgets and corresponding results of operations for the 2011-12 through 2013-14 fiscal years and found that the Board overestimated appropriations. The Board overestimated appropriations by an average of 43 percent for these three years. For example, the Board overestimated appropriations for sewage treatment disposal for the 2011-12 fiscal year by \$23,077, which continued through the 2013-14 fiscal year when it was overestimated by \$19,000 or 35 percent. As a result of consistently overestimating appropriations, the sewer fund had operating surpluses in all three years, which has caused an already excessive level of fund balance to become even more excessive. The fund balance was 230 percent of the ensuing year's appropriations at the end of the 2013-14 fiscal year.

<b>Figure 3: Sewer Fund – Operating Results and Fund Balance</b>			
	2011-12	2012-13	2013-14
Revenues	\$44,818	\$69,403	\$62,241
Expenditures	\$29,793	\$33,446	\$43,331
<b>Operating Surplus</b>	<b>\$15,025</b>	<b>\$35,957</b>	<b>\$18,910</b>
Beginning Fund Balance	\$72,941	\$87,966	\$123,923
Plus: Operating Surplus	\$15,025	\$33,446	\$18,910
<b>Ending Fund Balance</b>	<b>\$87,966</b>	<b>\$123,923<sup>a</sup></b>	<b>\$142,833</b>
Next Year's Budgeted Appropriations	\$62,700	\$63,000	\$62,000
<b>Unexpended Fund Balance as a Percentage of Next Year's Budgeted Appropriations</b>	<b>140%</b>	<b>197%</b>	<b>230%</b>

<sup>a</sup> The 2012-13 fiscal year fund balance was adjusted from what the Village reported in its records due to the impact of the general fund retaining moneys collected for delinquent sewer bills.

The Mayor informed us that the Board intentionally overestimated appropriations in the water and sewer funds in order to build up fund balance to pay for unforeseen costs and future repairs and maintenance. The desire to have funds on hand to finance future repairs and maintenance costs is understandable. However, the practice of padding appropriations and building up fund balance is not the most reasonable or transparent manner to do so. Instead, the Board should develop a multiyear plan identifying its future needs for capital related costs and the means for financing them (i.e., reserves, current appropriations or debt). Once estimates and plans are established, the Board should consider establishing reserve funds and transferring excess fund balance to the reserves. The Board should then provide an appropriation in each year's budget for the amount of money it intends to transfer to the reserves. These transparent budget practices will allow the Board to readily identify when its future costs are adequately funded.

The combination of unrealistic estimates in the adopted budgets, appropriation of excessive and non-existent fund balance amounts and inappropriately retaining and expending moneys belonging to the water and sewer funds have all contributed to the general fund being in fiscal stress and excessive levels of fund balance in the water and sewer funds. Sound budget practices are imperative to ensure that the Village maintains financial health.

## Recommendations

The Board should:

1. Develop a plan to alleviate the fiscal stress of the general fund. This plan should address the general fund balance being returned to a surplus position, payment of obligations to the water and sewer funds and an adequate cash balance to meet cash flow needs.
2. Ensure it does not appropriate fund balance in excess of the actual amount of fund balance available.
3. Ensure the water and sewer funds' budgets contain realistic appropriations.
4. Adopt a multiyear plan for the general, water and sewer funds. The plan should identify future needs for repairs, capital improvements and maintenance, the related costs; and the Board's plans for financing such costs.
5. Establish necessary reserves in the water and sewer funds to accumulate the resources for future repairs and capital improvements.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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

VILLAGE OF FORT ANN  
67 ANN STREET, PO BOX 236  
FORT ANN, NY 12827  
Phone 518-639-4416  
Fax 518-639-8320



September 18, 2014



NYS Office of the State Comptroller  
Division of Local Government and School Accountability  
One Broad Street Plaza  
Glens Falls, NY 12801

Re: Village of Fort Ann Financial Condition – Report of Examination  
Period Covered: March 1, 2011 – February 28, 2014

Dear :

On Friday September 12<sup>th</sup>, 2014, the Board of the Village of Fort Ann received and reviewed a preliminary draft report prepared by your office. The Village Board is in agreement with the findings of the report regarding the audit of the Village.

The Village Board is in the process of developing a CAP, using the results and recommendations of the audit, to correct these findings. The Village Board appreciates the fiscal oversight that the Office of the State Comptroller and its' auditors have provided to us. Thank you for your time.

Sincerely,

Richard P. Foran  
Village Mayor

RPF:DLL

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by Village officials to safeguard Village assets and monitor financial activities. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk.

During the initial assessment, we interviewed Village officials, performed limited tests of transactions and reviewed pertinent documents, such as Village policies, Board minutes and financial records and reports. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft or professional misconduct. We then decided upon the reported objective and scope by selecting for audit the area most at risk. We selected financial condition for further review.

To review the Village's financial condition, we performed the following steps:

- We interviewed officials to gain an understanding of the Village's budget process and financial accounting system.
- We recalculated the net operating surpluses or deficits for the fiscal years ending February 28, 2012 through 2014. We then determined the impact of the net surpluses or deficits on fund balances for the general, water and sewer funds.
- We reviewed the Village's monthly financial reports to determine if the Board received monthly reports that included an analysis of actual-to-budgeted results.
- We reviewed the 2011-12 through 2013-14 budgets to determine if they were reasonable and structurally balanced.
- We analyzed interfund borrowings and determined the amount of interfund borrowings at the beginning of each fiscal year, starting in 2011-12.
- We reviewed receipts for property taxes, water and sewer to determine if they were properly recorded to the correct funds in the correct time period.
- We determined if the Village had long-term financial or capital plans.
- We reviewed the Village's meeting minutes.

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.

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