



Village of Waverly

Financial Condition

Report of Examination

Period Covered:

June 1, 2012 — January 22, 2014

2014M-137



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 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 Village of Waverly, 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 Waverly is located in the Town of Barton, in Tioga County. The Village had 4,444 residents as of the 2010 census and provides various services, including general government support, water distribution, sewage treatment, police protection, road maintenance and snow removal. The Village's annual budget for the 2014-15 fiscal year is approximately \$4 million, funded mainly from real property taxes, water and sewer rents, sales tax and State and Federal aid.

The Village is governed by the Board of Trustees (Board) which comprises an elected Mayor and six Trustees. The Trustees, along with the Mayor, are responsible for the overall management and oversight of Village operations including short- and long-term financial planning. In addition to the Board, two appointed Board of Commissioners manage the Village's water and sewer districts.

Objective

The objective of our audit was to examine the Village's budgeting practices and financial condition. Our audit addressed the following question:

- Did the Board develop and adopt realistic, structurally balanced general fund budgets?

Scope and Methodology

We examined the Village's Board minutes, adopted budgets, various financial records and reports. We also interviewed Village officials and staff members. Our audit period was June 1, 2012 through January 22, 2014. We expanded our scope back to June 1, 2011 and forward to July 3, 2014 to analyze trends in fund balances, budgets, revenues and expenditures.

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 our recommendation 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 findings and recommendation and indicated that they plan to take corrective action. Appendix B includes our response to an issue in the Village's response letter.

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 Village Clerk's office.

Financial Condition

The Board has the responsibility to develop and adopt realistic, structurally balanced budgets and to continually monitor those budgets throughout the year. Overarching the development of the expenditure and revenue estimates is the structural soundness of the budget; recurring expenditures should be financed by recurring revenues. While operating deficits can be planned as a means of prudently using excess accumulated fund balance, officials should have a clear and sound understanding of fund balance and how its use impacts the Village's long-term financial condition. When budgets are properly estimated, fund balance should not be used as a recurring revenue, as it would be spent when planned without any available for future use. Thus, fund balance is best used to finance non-recurring, or otherwise infrequent expenditures. Therefore, the Board should establish an appropriate level of fund balance to ensure that sufficient funding will be available to sustain operations, address unexpected occurrences and satisfy long-term obligations.

The Board did not develop and adopt realistic, structurally balanced general fund budgets because Village officials used fund balance as a recurring revenue source. This resulted in the repeated adoption of budgets using fund balance to finance operations. During fiscal years ended 2012 and 2013, the Village used over \$120,800 of fund balance. This continued use diminished the Village's general fund balance to a precarious position by the end of the 2013-14 fiscal year.

From fiscal years 2011-12 to 2013-14, the use of fund balance kept the real property tax levy artificially low while at the same time revenues remained at the same level and expenditures were increasing by 6 percent. The Village's 2014-15 budget includes an appropriation of \$100,000 of fund balance, which is \$150,000 less than the previous year. In order to fill the budget gap, Village officials overrode the property tax cap limit and increased taxes by over 8 percent.

Budget Development – The Village's general fund budget development process begins with the department heads determining their ensuing year's appropriations. The Clerk-Treasurer then estimates what revenues, other than real property taxes, will be available to finance these expenditures. The Clerk-Treasurer includes the amount of fund balance appropriated in the previous year's budget in the revenue figure for the current year's budget development. The difference between the anticipated appropriations and the total revenue estimate, including the use of fund balance, determines the amount of real property taxes needed to balance the budget. The Clerk-Treasurer then

calculates what the percentage increase in real property taxes will be and determines if the increase is within the 2 percent real property tax cap limit. This preliminary budget along with the property tax cap calculation is presented to the Board and Mayor for review.

Board members stated that there are no discussions during budget workshops regarding the appropriation of fund balance. In fact, they did not know that appropriated fund balance was not actually a revenue source. While the Board is presented with sufficient monthly information to monitor actual operations as compared to the adopted budget, they do not fully understand the information presented. The Board does not realize that while they are ensuring that expenditures do not exceed budgeted appropriation amounts throughout the year, a significant amount of those expenditures are being financed with the use of fund balance, in accordance with the adopted budget. Therefore, both the Board and Clerk-Treasurer did not recognize the effect that the continued use of fund balance would have on the Village's overall financial condition, including its impact on the real property tax levy once fund balance was no longer a viable funding source.

Fund Balance and Operating Results – For fiscal years 2011-12 through 2013-14, the adopted budgets included a total of \$650,000 in appropriated fund balance as a financing source in order to reduce the need for significant increases in the real property tax levy. For the same time period, expenditures increased by 6 percent and outpaced recurring revenues which remained at the same level. The expenditure increases were driven by fixed costs, including building renovation project debt payments and payroll-related contract costs. Officials have increased taxes 1 to 2 percent and have relied heavily on appropriated fund balance to cover the shortfall between revenues and expenditures.

These trends in actual expenditures and revenues caused the Village to have operating deficits for the 2011-12 and 2012-13 fiscal years totaling over \$120,800. The Village will experience another operating deficit of over \$166,000 for the 2013-14 fiscal year.¹ Therefore, the Village's fund balance will decline by over \$286,900 for the period 2011-12 through 2013-14, leaving its current unassigned fund balance at just over \$301,000, or 11 percent of the ensuing year's budgeted expenditures, down from 13 percent in fiscal year 2011-12. Although the fund balance at the 2013-14 fiscal year-end will still be at a reasonable level, the Village cannot continue to use fund balance at this rate without eventually becoming fiscally stressed.

¹ Our figures are based on Village accounting records obtained from the Village Clerk-Treasurer as of July 3, 2014. As of this date, the books were not closed and these numbers have not been finalized.

Before the adoption of the 2014-15 fiscal year budget, we provided guidance to Village officials on the use of fund balance. In this budget, the Board appropriated \$100,000 of fund balance which is a decrease from the 2013-14 budgeted amount of \$250,000. While this is an improvement, this level of appropriation will leave a reduced balance to provide for unexpected occurrences and to provide for cash flow. In order to lower the appropriated fund balance amount in the fiscal year 2014-15 budget, Village officials overrode the property tax cap limit and raised real property taxes \$150,000, an increase of over 8 percent.

The continued use of fund balance to finance the current level of expenditures kept the real property tax levy artificially low for several years. However, the continued reliance on fund balance eventually resulted in a significant increase in real property taxes for Village residents in the 2014-15 fiscal year.

Recommendation

1. The Board should continue to closely monitor the level of fund balance and continue to ensure that budgets are structurally balanced without depleting fund balance.

APPENDIX A

RESPONSE FROM VILLAGE OFFICIALS

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



VILLAGE OF WAVERLY

Waverly, New York 14892

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Attorney

July 23, 2014

NYS Office of the State Comptroller
ATTN: Todd Eames
44 Hawley Street, Room 1702
Binghamton, NY 13901-4417

RE: Village of Waverly Response to Financial Condition Audit

Dear Mr. Eames,

The Village of Waverly received the NYS Comptroller's draft audit report for the period of June 1, 2012 through January 22, 2014. The Deputy Mayor and Clerk Treasurer met with representatives from the OSC on July 3, 2014 to review the draft. The Mayor and the Board of Trustees agree with the draft audit as presented.

The Board of Trustees and Clerk Treasurer have already made some positive changes in the 2014-2015 Budget:

- We have reduced the general fund appropriation of fund balance from \$250,000 to \$100,000, which caused an increase in real property taxes of 7.4%. The Board of Trustees will reduce the appropriation of fund balance in future budgets as well.
- We will be receiving \$203,000 from Tioga County as a refund from the closing of the health insurance consortium. We have made substantial changes in health insurance costs, both contractual and non-contractual. This is a savings of over \$50,000 in current budget. The Board of Trustees is actively searching for new revenue streams, shared service opportunities, and ways to reduce spending.
- The Board is currently discussing setting up a reserve to help stabilize and plan for purchasing of equipment. The Village of Waverly has existing/active capital reserves for General, Water, and Sewer Funds.
- Rates were increased for both water and sewer to help insure adequate revenues to cover operations and increase those fund balances as well.

See
Note 1
Page 10

Although the Board is given a monthly report from the treasurer, which outlines actual operations as compared to the budget, they did not fully understand the information. This audit has brought needed attention to help inform the Board as to what fund balance is and how to best utilize it. The Board has also gained knowledge and understanding of the budget process as well.

We thank the OSC for their services provided. This audit will help improve our operations, and in effect will improve our financial condition in the years to come. The Village of Waverly will be submitting a corrective action plan (CAP) within the 90-day requirement. /

Sincerely,

Mayor Daniel F. Leary

APPENDIX B

OSC COMMENT ON THE VILLAGE'S RESPONSE

Note 1

We reported a real property tax increase of over 8 percent which is based on the increase of the tax levy. The Village's figure of 7.4 percent is based on the increase in tax rates.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the Village's financial condition for the period June 1, 2012 through January 22, 2014. To accomplish our audit objective and obtain valid and relevant audit evidence, we performed the following procedures:

- We interviewed Village officials to gain an understanding of the processes followed for the development of the general fund budget, reasons for the decline in fiscal health and any plans for improvement of the Village's financial condition.
- We obtained board adopted budgets for the 2013-14 and 2014-15 fiscal years and compared the 2013-14 budgeted appropriations to the 2014-15 budgeted appropriations to determine if the amounts budgeted increased or decreased.
- We projected actual revenues and expenditures for fiscal year 2013-14 using monthly expenditures to date and corroborated verbal assertions from Village officials. We additionally obtained budget to actual reports through May 31, 2014 and calculated the Village's ending unappropriated/unassigned fund balance.
- We calculated the difference between general fund revenues and expenditures for fiscal years 2011-12 through 2013-14 to determine if the funding of operations was structurally balanced.
- We performed a trend analysis of actual general fund revenues and expenditures for fiscal years 2011-12 through 2013-14 by account code to determine the rate of increase or decrease and to determine which accounts were driving the decline in revenues and the increase in expenditures.
- We performed a fund balance trend analysis for the 2011-12 through 2013-14 fiscal years and calculated the appropriated fund balance for the period and the unassigned/unappropriated fund balance as a percentage of the ensuring year's appropriations.

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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