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Joe Orlow, Mayor
Members of the Board of Trustees
Village of South Glens Falls
46 Saratoga Avenue
South Glens Falls, NY 12803

Report Number: 2014M-102-F

Dear Mr. Orlow and Members of the Board of Trustees:

One of the Office of the State Comptroller's primary objectives is to identify areas where local government officials can improve their operations and provide guidance and services that will assist them in making those improvements. The Office also works to develop and promote short-term and long-term strategies to enable and encourage village officials to reduce costs, improve service delivery and account for and protect their village's assets. In accordance with these objectives, we conducted an audit of the Village of South Glens Falls (Village) to assess its financial condition and budgeting practices. As a result of our audit, we issued a report, dated July 2014, identifying certain conditions and opportunities for Village management's review and consideration.

To further our policy of providing assistance to local governments, we revisited the Village in February 2016 to review progress in implementing our recommendations. Our follow-up review was limited to interviews with Village personnel and inspection of certain documents related to the issues identified in our report. Based on our limited procedures, it appears that the Village has made limited progress implementing corrective action. Of the two audit recommendations, one recommendation was partially implemented and one recommendation was not implemented.

Recommendation 1 – Development and Adoption of Annual Budgets

The Board and Village officials should develop and adopt annual budgets that include realistic estimates for revenues, expenditures and the amount of fund balance appropriated to finance operations. The estimates should reflect the actual level of spending and revenues anticipated during the year and be supported by historical data, trends and other applicable supporting sources of information.

Status of Corrective Action: Partially Implemented

Observations/Findings: The Board continued to adopt general fund budgets that were unrealistic, that were not supported by historical trends and that relied on a diminishing amount of fund balance. However, it did adopt water and sewer fund budgets that were more reasonable.

We reviewed financial records for the general, water and sewer funds for the 2013-14 and 2014-15 fiscal years and reviewed the 2015-16 budget. In 2013-14 and 2014-15, the general fund realized positive variances for revenues and appropriations (see Figure 1). However, the fund still realized operating deficits of \$106,265 in 2013-14 and \$212,610 in 2014-15. These results of operations have continued a downward trend in the general fund’s financial position.

Figure 1: General Fund			
	Budget	Actual	Variance
2013-14			
Revenues	\$2,605,686	\$2,770,798	\$165,112
Appropriations	\$3,187,616	\$2,877,063	\$310,553
Operating Deficit		(\$106,265)	
2014-15			
Revenues	\$2,248,047	\$2,269,917	\$21,870
Appropriations	\$2,876,588	\$2,482,527	\$394,061
Operating Deficit		(\$212,610)	

The 2013-14 budget included a planned appropriation of fund balance of \$581,930 when only \$476,108 was available and the 2014-15 budget included a planned appropriation of \$628,541 when only \$369,843 was available. While the Village did not use all of the fund balance that was appropriated in each budget, the operating deficits and reliance on fund balance each year have placed the general fund in a precarious position. The fund balance available for appropriation at the end of 2014-15 was only \$157,233,¹ or 5.45 percent of 2015-16 appropriations. The Board continued to appropriate more fund balance than was available in the 2015-16 budget (see Recommendation 2). Village officials and the Board are aware of the financial stress of the general fund and will need to closely monitor the fund for the remainder of 2015-16 to avoid an operating deficit and deficit fund balance.

Water Fund — The Board adopted water fund budgets that were more realistic than in 2011-12 and 2012-13. In 2013-14, revenues were underestimated by \$18,075 and appropriations were overestimated by \$75,348. In 2014-15, revenues were overestimated by \$75,184 and appropriations were overestimated by \$196,588. The actual results were an operating surplus of \$27,727 in 2013-14, about 5.6 percent of expenditures, and an operating surplus of \$55,167 in 2014-15, about 14.3 percent of expenditures. These operating surpluses were significantly less than in prior years. The operating surplus in 2011-12 was \$148,958, about 79 percent of expenditures and the operating surplus in 2012-13 was \$238,684, about 63 percent of expenditures. Village officials stated they planned to use the surplus fund balance during the next few years to repair and replace water infrastructure.

¹ The fund balance at the beginning of 2013-14 was \$476,108. The fund balance at the beginning of 2014-15 was \$369,843.

Sewer Fund — The Board adopted sewer fund budgets that were more realistic than in 2011-12 and 2012-13. In 2013-14, revenues were overestimated by \$1,199 and appropriations were overestimated by \$91,994. In 2014-15, revenues were underestimated by \$4,980 and appropriations were overestimated by \$91,204. The actual results were operating surpluses of \$47,386 in 2013-14 and \$45,408 in 2014-15. These operating surpluses were somewhat less than in prior years (about \$81,000 in 2011-12 and \$66,000 in 2012-13). The Board can improve its budget estimates by analyzing historical trends of actual revenues and expenditures and anticipating realistic levels of revenues and expenditures in the coming year.

Recommendation 2 – Fund Balance Projections

Village officials should accurately project the amount of available fund balance prior to appropriating it as a financing source for the subsequent year's operations. This will prevent appropriating fund balance in excess of what is actually available.

Status of Corrective Action: Not Implemented

Observations/Findings: The Board continued to inaccurately project the amount of available fund balance prior to appropriating it as a financing source. As a result, the Board planned to appropriate more fund balance than was actually available. As noted previously, the 2013-14 budget included a planned appropriation of fund balance of \$581,930 when only \$476,108 was available and the 2014-15 budget included a planned appropriation of \$628,541 when only \$369,843 was available. The general fund realized operating deficits in 2013-14 and 2014-15 totaling \$106,265 and \$212,610, respectively. Even though the deficits were not as large as the Village had planned,² they still caused the fund balance to decrease from \$476,108 at the beginning of 2013-14 to \$157,233 at the end of 2014-15. The Village continued appropriating excessive amounts of fund balance in the 2015-16 budget that included a planned appropriation of \$541,043 when only \$157,233 was available at the end of 2014-15. If the general fund finishes 2015-16 exactly as budgeted, there will be a deficit fund balance totaling \$383,810 as a result of the Village not implementing this recommendation.

During our review, we discussed the basis for our recommendations and the operational considerations relating to these issues. We encourage Village officials to renew their efforts to fully implement our recommended improvements.

² When fund balance is appropriated to finance operations, the total estimated revenues are planned to be less than total appropriations by the amount of the fund balance that is appropriated. Thus, an operating deficit will occur if the actual revenues and expenditures are in line with the budgetary estimates.

Thank you for the courtesies and cooperation extended to our auditors during this review. If you have any further questions, please contact Jeffrey Leonard, Chief Examiner of our Glens Falls Office, at (518) 793-0057.

Sincerely,

Gabriel F. Deyo
Deputy Comptroller