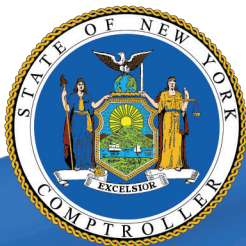


Village of Newport

Financial Management

APRIL 2017



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Village of Newport

Audit Objective

Determine whether the Board and Village officials adopted reasonable budgets and adequately managed the Village's financial condition.

Key Findings

- From fiscal years 2013-14 through 2015-16, budgeted appropriations in the general fund exceeded actual expenditures by an annual average of \$99,600 (36.8 percent).
- Unrestricted fund balance¹ increased \$148,357 (60 percent) over the past three years to \$396,383 as of May 31, 2016, which represents 105 percent of the ensuing year's budgeted appropriations.
- Village officials have not developed a comprehensive, written multiyear financial or capital plan.

Key Recommendations

- Adopt budgets that include realistic estimates for expenditures.
- Develop a policy to govern the levels of fund balance the Village should maintain.
- Develop and adopt a comprehensive multiyear financial and capital plan.

Village officials generally agreed with our recommendations and indicated they plan to initiate corrective action. Appendix B includes our comment on an issue Village officials raised in their response.

Background

The Village of Newport (Village) is located in the Town of Newport in Herkimer County. The Board of Trustees (Board) is responsible for the general management and control of the Village's financial affairs, including developing and adopting the annual budget and establishing financial policies and procedures. The Mayor is responsible for the Village's day-to-day management.

Quick Facts

Employees	15
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Population	640
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2016-17 General Fund Budgeted Appropriations	\$378,924
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Audit Period

June 1, 2015 through September 30, 2016. We extended our audit period back to June 1, 2013 to analyze financial trends in prior years.

¹ For the purposes of this report, unrestricted fund balance represents total fund balance less reserves and amounts appropriated to fund the next year's budget.

Financial Condition

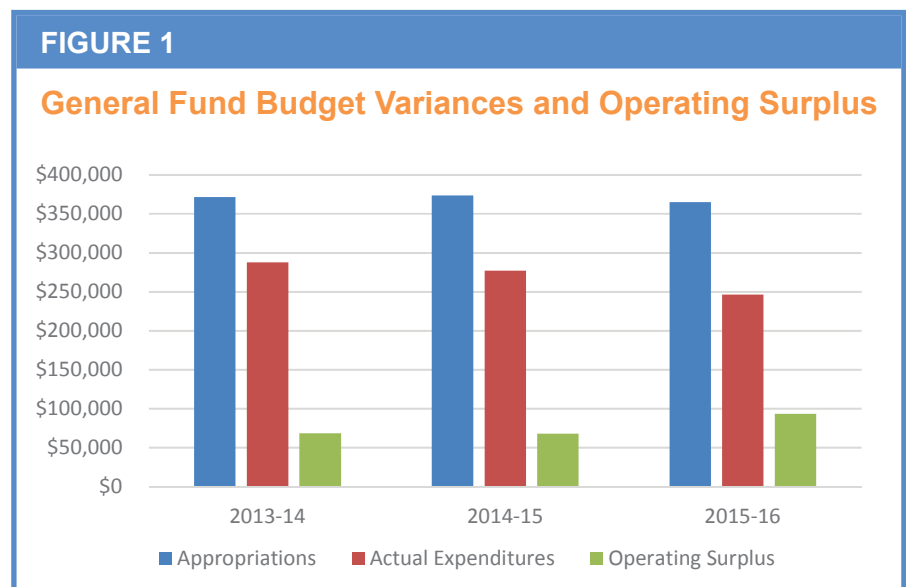
How Does a Board Effectively Manage Financial Condition?

To effectively manage financial condition, the Board should adopt realistic and structurally balanced budgets, based on historical or known trends, in which recurring revenues finance recurring expenditures and reasonable levels of fund balance are maintained. Fund balance is the difference between revenues and expenditures accumulated over time. Village officials can legally set aside or reserve portions of fund balance to finance future costs for a specific purpose and may also appropriate a portion of fund balance to help finance the next year's budget. Sound budgeting practices provide that adopted annual budgets should not routinely appropriate fund balance that will not be used. The Village may also retain a reasonable portion of unrestricted fund balance to use as a financial cushion in the event of unforeseen circumstances. Adopting a fund balance policy that addresses the appropriate level of fund balance to be maintained in each fund is a best practice that provides the Board with guidelines to use during the budget process.

The Board Adopted Budgets With Unrealistic Estimates, Resulting in Excessive Fund Balance

From fiscal years 2013-14 through 2015-16, the Board adopted budgets with appropriations that exceeded actual expenditures, resulting in the accumulation of excess fund balance in the general fund (Figure 1). The Board has not adopted a policy to govern the level of fund balance to be maintained.

- Budgeted general fund appropriations exceeded actual expenditures by an annual average of \$99,600, or almost \$300,000 over the last three years combined. Operating surpluses totaled over \$230,000 for fiscal years 2013-14 through 2015-16.
- The budget to actual variance for total expenditures from 2013-14 through 2015-16 was 37.3 percent.

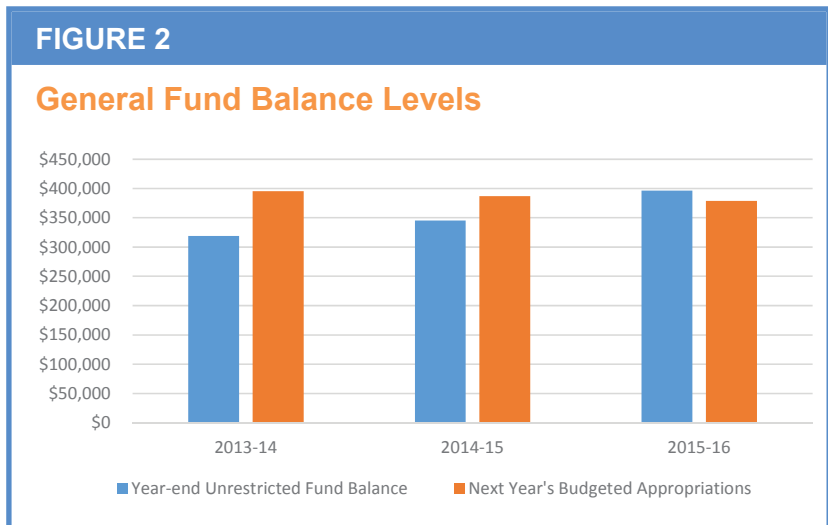


We reviewed the Village’s budget to actual reports showing individual accounts for fiscal years 2013-14 through 2015-16 and found that the majority of the overestimated appropriations were for fire equipment and supplies (\$76,831, or 39 percent above actual expenditures), street repairs (\$72,877, or 149 percent) and recreation improvements (\$59,344, or 398 percent). Village officials told us that the Board budgeted for repairs and improvements to some of the Village’s major streets and the playground in both 2014-15 and 2015-16, but the Village did not do the projects either year, resulting in the significant budget variances.

Additionally, the Board appropriated fund balance totaling approximately \$111,000² to fund the 2013-14 through 2015-16 budgets, which should have resulted in planned operating deficits³ and fund balance decreases. Instead, the significant expenditure budget variances led to annual operating surpluses (revenues exceeding expenditures), and none of the appropriated fund balance or reserves were used. The general fund’s unrestricted fund balance increased \$148,357 (60 percent) to \$396,383⁴ over the three-year period (Figure 2). As of May 31, 2016, the unrestricted fund balance was 105 percent of the next year’s budgeted appropriations. Based on historic spending levels, the unrestricted fund balance in the Village’s general fund could cover more than a full-year’s appropriations.

When fund balance is kept at excessively high levels, funds that could benefit the Village are not being used, thereby placing an unnecessary tax burden on Village residents.

Village officials told us they recognized the fund balance in the general fund was high. Therefore, the Board appropriated an additional \$8,000 of fund balance in the 2016-17 budget over the



2 The Board appropriated \$31,150 in capital reserves for use in the 2013-14 year and appropriated \$30,000 and \$50,000 in fund balance, respectively, to fund 2014-15 and 2015-16.

3 A planned operating deficit occurs when a board purposely adopts a budget in which appropriations are greater than planned revenues, with the difference to be funded with appropriated fund balance or appropriated reserves.

4 Unrestricted fund balance was \$248,026 at the beginning of the 2013-14 fiscal year.

previous year and decreased the tax levy by \$11,324, or 11 percent. While this action is beneficial to residents, Village officials still need to adopt more realistic budgets and take additional measures to reduce the unrestricted fund balance to a more reasonable level. The estimated appropriations in the 2016-17 budget are very similar to previous years' budgets. Based on the Board's past budgeting practices, the Village will likely generate another operating surplus in 2016-17, which will further increase its fund balance.

How Does Multiyear Planning Improve Budgeting?

Planning on a multiyear basis allows Village officials to identify developing revenue and expenditure trends, set long-term priorities and goals and consider the impact of current budgeting decisions on future fiscal years. It also allows Village officials to assess the impact and merits of alternative approaches to address financial issues, such as the use of fund balance to finance operations and the accumulation of money in Board-authorized reserve funds.⁵ Effective multiyear plans project operating and capital needs and financing sources over a three-to-five-year period. The plans should be monitored and updated on an ongoing basis to provide a reliable framework for preparing budgets and to ensure that information used to guide decisions is current and accurate.⁶

The Village Has Not Developed Multiyear Financial Plans

Village officials have not developed a comprehensive, written multiyear financial or capital plan. The development of formal long-term plans would help Village officials address the use of fund balance and prioritize and plan for future capital needs, such as the street and playground improvements Village officials have discussed pursuing. If the Board intends to accumulate money for capital outlays or other allowable purposes in future years, it should formally establish reserve funds to restrict the use of the money. The establishment of multiyear plans and reserve funds would provide more transparency to Village residents on the Board's strategy for addressing the excessive fund balance.

What Do We Recommend?

The Board should:

1. Adopt a fund balance policy that establishes reasonable levels of fund balance to be maintained to meet the Village's financial needs.

⁵ Reserve funds provide a mechanism for legally saving money to finance all or part of future infrastructure, equipment and other allowable purposes (e.g., capital reserve fund or repair reserve fund). Guidance on reserve funds is available in the Office of the State Comptroller publication entitled "*Local Government Management Guide, Reserve Funds*" available at <http://www.osc.state.ny.us/localgov/pubs/lmgm/reservefunds.pdf>

⁶ See <http://www.osc.state.ny.us/localgov/planbudget/>

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2. Formulate a plan for the use of excess unrestricted fund balance in the general fund in a manner that benefits Village residents. Such uses include, but are not limited to, reducing property taxes, establishing necessary reserves or financing one-time expenditures.
 3. Develop and adopt budgets that include realistic estimates for expenditures and the amount of fund balance which will be available and used to fund operations.
 4. Discontinue the practice of adopting budgets that result in the appropriation of fund balance that will not be used.
 5. Develop and adopt a comprehensive multiyear financial and capital plan to establish the goals and objectives for funding long-term operating and capital needs. These plans should be monitored and updated on an ongoing basis.

Appendix A: Response From Village Officials



Historic 1853 Stone Arch Bridge

Village of Newport

P.O. Box 534
Newport, NY 13416

Mayor Ashley Hennings
Trustee Steven Woods
Trustee Thomas Roberts

March 31, 2017

New York State, Office of the State Comptroller
Division of Local Government and School Accountability
Attn: [REDACTED]
110 State Street
Albany, NY 12236-0001

Re: Village of Newport
Financial Management
Report of Examination
2017M-012

Dear [REDACTED]

The Village of Newport's response to the draft audit is as follows:

The Village of Newport Board of Trustees recognizes that the Village has budgeted appropriations in the general fund that exceeded the actual expenditures. The Village Board of Trustees also recognizes that the Unrestricted Fund Balance has increased over the past three years. Thirdly, the Village Board of Trustees recognizes that the Village of Newport has not developed a documented comprehensive multi-year plan recognized by the New York State Office of the State Comptroller.

The Village has planned and publicly discussed (at budget hearings and meetings to pass the annual budget, each of the years included in the audit) what and why funds were being raised: long term revitalization efforts, improvements to infrastructure, equipment replacement, building improvements. The Mayor and Village Treasurer along with the assistance of the Village Trustees has spent extensive time reviewing minutes, past audits and other official documents to determine how and if reserves and other previously designated accounts were handled and properly developed. The Village found that monies that were previously marked as reserves were not established in accordance with New York State Office of the State Comptroller's guidelines, thus resulting in monies being designated at General Funds.

The Village Board of Trustees also discussed publicly the need to keep an appropriate fund balance for the Village's expenses in emergent and emergency situations and avoid financial distress. The Village Board also felt it necessary to be cautious of budget appropriations and expenditures due to a long-term law suit regarding the tax appraisal (spanning several years) of a high dollar assessed property within the Village. The law suit settled in March, however the Village is

still awaiting final financial implications and final dollar figures due back to the property owner. The outcome has confirmed our assumptions and reservations around the budget, including impact to our future tax cap.

The Village does not agree that the Village adopted budgets with unrealistic estimates but rather for reasons documented above.

The Village recognizes and agrees that Village should formally adopt a policy to govern the fund balance levels and create an appropriate multi-year financial and capital plan to include formalizing reserves. A complete and comprehensive Corrective Action Plan has been actively worked on; it will be formally outlined and provided in detail within 90 days of receipt of the final audit report.

We appreciate the consideration given to the above response. We thank your office and auditors for their time and guidance throughout the audit process.

Best Regards,

Ashley Hennings, Mayor
Village of Newport

See Note 1 Page 8

Appendix B: OSC Comment on the Village's Response

Note 1

When local governments consistently generate surpluses by overestimating actual expenditures while appropriating fund balance, it is not transparent. Village officials explained many of their reasons for amassing over one year's worth of appropriations as of May 31, 2016. However, it is imprudent to adopt budgets where appropriations consistently exceed actual expenditures without adjusting the process for estimating expenditures (i.e., changing budgeting practices or establishing reserves to put money aside for specific purposes).

Appendix C: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed Village officials to gain an understanding of the budget process and to determine whether the Board adopted budgeting and fund balance policies and multiyear financial plans. We reviewed the Board minutes and spoke to Village officials to determine what reports were provided to the Board.
- We reviewed the results of operations for the general fund for fiscal years 2013-14 through 2015-16.
- We compared the general fund's revenues and appropriations in the original budget to the actual revenues and expenditures for fiscal years 2013-14 through 2015-16 to determine if total budgeted revenues and appropriations were realistic.
- We reviewed actual expenditures for fiscal years 2013-14 through 2015-16 to determine which expenditure categories contributed the most to the Village's budget-to-actual variances. We interviewed Village officials to identify reasons for significant budget variances.
- We compared general fund estimated revenues and appropriations in the current 2016-17 budget with the budgets for the previous two fiscal years.
- We analyzed the trend in total fund balance in the general fund for fiscal years 2013-14 through 2015-16. We also compared the unrestricted fund balance to the ensuing year's budgeted appropriations to determine if it was reasonable.

We conducted this performance audit in accordance with GAGAS, generally accepted government auditing standards. 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.

A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided to our office within 90 days, pursuant to Section 35 of 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 the CAP available for public review in the Village Clerk's office.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/localgov/finreporting/index.htm

Research Reports / Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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