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October 2, 2026

Frank DenDanto III, Supervisor
Town of Wallkill
99 Tower Drive, Building A
Middletown, NY 10941

Report Number: B26-6-7

Dear Town Supervisor DenDanto and Members of the Town Board:

Our Office completed a review of the Town of Wallkill's (Town) 2026 fiscal year budget. The objective of the review was to provide an independent evaluation of the adopted budget. Our review addressed the following question related to the Town's current fiscal year budget:

- Were the significant revenue and expenditure projections in the Town's adopted budget reasonable?

Because the Town did not have complete, accurate and current accounting and financial records, our ability to determine the reasonableness of the Town's significant revenue and expenditure projections was limited. Overall, we determined that significant revenue and expenditure projections in the adopted budget were not always reasonable or supported. The Town's adopted budget for fiscal year 2026 risks negatively impacting the Town's financial condition and putting the Town in a declining financial position.

The scope of our review does not constitute an audit under generally accepted government auditing standards (GAGAS). We do not offer comments or make specific recommendations on public policy decisions, such as the type and level of services under consideration to be provided.

To accomplish our objective in this review, we:

- Requested the Town's 2026 adopted budget, salary schedules, debt payment schedules and other pertinent information.
- Identified and examined significant estimated revenues and expenditures for reasonableness with emphasis on significant and/or unrealistic increases or decreases.
- Analyzed, verified and/or corroborated trend data and estimates, where appropriate and available.
- Identified any significant new or unusually high revenue or expenditure estimates, made appropriate inquiries and reviewed supporting documentation to determine the nature of the items and to determine whether the estimates were realistic and reasonable.
- Evaluated the amount of fund balance appropriated in the adopted budget to use as a financing source to determine whether it was reasonable.

The Town's adopted budget is summarized in Figure 1:

Figure 1: 2026 Town of Wallkill Adopted Budget

Funds (Major Funds Only)	Appropriations and Provisions for Other Uses	Estimated Revenues	Appropriated Fund Balance	Real Property Taxes
General Fund	\$27,013,522	\$16,979,037	\$2,238,694	\$7,795,791
Highway Fund	8,851,595	1,675,010	439,500	6,737,085
Water Fund	4,929,682	4,175,930	753,752	0
Sewer Fund	4,929,318	4,692,483	236,835	0
Golf Fund	2,143,210	2,143,210	0	0
Total	\$47,867,327	\$29,665,670	\$3,668,781	\$14,532,876

Accounting and Financial Records

The observations and recommendations resulting from our review were largely influenced by the quality and quantity of materials submitted. As explained below, there were some limitations to our review due to concerns with the Town's accounting and financial records and lack of support for budgetary estimates. Specifically:

Audited Financial Statements – The Town's most recent completed audited financial statements are for the fiscal year ending December 31, 2022. Due to ongoing concerns with the records, the Town has not yet received audits for the 2023, 2024 or 2025 fiscal years.

Annual Financial Report (AFR) – The Town's last AFR filed with OSC, was submitted August 21, 2025, for the fiscal year ending December 31, 2022. The Town has yet to file the 2023, 2024 and 2025 AFRs which were between 155 and 885 days late as of October 2, 2026.

Bank Reconciliations – The Town currently has approximately 70 bank accounts. While Town officials have discussed closing some of the accounts, multiple accounts first need completed reconciliations, which Town officials have yet to do. Over the last 1.5 years, the Town has paid an outside contractor \$225,453 for services to reconcile the Town's bank accounts. While some smaller accounts are reconciled through the end of 2024, the Town's major operating accounts were only reconciled through the end of 2023.

Personnel – The Town experienced staff turnover in key accounting positions between 2023 and 2026, including three different Comptrollers/Deputy Comptrollers, and as noted above, contracted with an outside provider for certain accounting services, such as reconciling bank accounts. However, the Town remained responsible for maintaining complete, accurate and reliable accounting records and providing timely financial information, which it did not do. As a result, the Board's ability to accurately assess the Town's financial position, develop realistic budgets and make informed financial decisions was hindered.

Because it did not have up-to-date audited financial statements and documentation, the Board's ability to gain an accurate understanding of the Town's financial position and develop realistic budgets was hindered. Further, key staff turnover and inadequate staffing within the Town's accounting department, as well as an excessive number of bank accounts, have strained staff's ability to provide up-to-date banking and financial information to the Board.

Revenues and Nonrecurring Funding Sources

Fund Balance – The 2026 adopted budget includes appropriated fund balance totaling \$2.2 million in the general fund and \$993,111 in the water and sewer funds.

Due to our concern that the records were not up to date and there was no recent audit, it is unclear how officials determined how much fund balance was available to appropriate. Further, the Town's use of fund balance as a revenue source in the 2026 budget decreases the fund balance that is available to cover unforeseen circumstances, shortfalls in revenue or cash flow needs when the financial position is unknown. Once officials determine what the Town's financial position is, they may need to replace this nonrecurring revenue in future budgets.

Additional State Aid – The Town anticipates receiving \$4.0 million in one-time State aid, which was awarded subsequent to the budget adoption. However, no timeline for the distribution of the aid was established. Additionally, it is unclear whether there will be restrictions on how the Town can use the funds.

Hotel Occupancy Tax – The 2026 adopted budget includes hotel occupancy tax revenue of \$2 million. The Town received an average of \$1.4 million for fiscal years 2023 through 2025. Therefore, Town officials may have overestimated hotel occupancy tax by approximately \$600,000 and should consider this when developing the 2027 budget.

Mortgage Tax – The 2026 adopted budget includes mortgage tax revenue of \$1.4 million. The Town received an average of \$980,000 for fiscal years 2023 through 2025. Therefore, Town officials could potentially face a shortfall of approximately \$420,000 if not realized and should consider this when developing the 2027 budget.

Building Permits – The 2026 adopted budget includes building permit revenue of \$1.3 million. Although the Town received an average of \$1.1 million for fiscal years 2023 through 2025, building permit revenue decreased to approximately \$815,000 in 2025. Based on 2025 actual results, we project the Town will receive approximately \$620,000 in building permit revenue for 2026; a potential shortfall of approximately \$680,000.

The Building Inspector told us that the Board asked him about expenditures, but he had no input in developing revenue estimates for line items within his department. Therefore, he was unsure why the Board continued to raise the revenue line, as there were no indicators that revenue would increase year over year. Town officials should closely monitor building permit revenue and ensure that relevant factors, such as input from department heads, are taken into consideration when forming budget estimates.

Fines and Forfeited Bail – The 2026 adopted budget includes \$800,000 in revenue derived from fines and forfeited bail received from the Town's court. The average amount of fines and forfeited bail collected in the past two fiscal years was approximately \$624,000; therefore, Town officials could potentially face a shortfall of approximately \$175,000 if not realized. Town officials should consider this when developing the 2027 budget and consider prior-year operating results when forming budget estimates.

Franchise Tax – The 2026 adopted budget includes \$750,000 in revenues derived from franchise taxes received from certain businesses located within the Town. In 2024 and 2025, franchise tax revenue received was less than budgeted by \$285,000 and \$350,000, respectively. The average amount of franchise tax collected in the past three fiscal years was \$498,000; therefore, Town officials could potentially face a shortfall of approximately \$251,000 if not realized. Town officials should consider this when developing the 2027 budget and consider prior-year operating results when forming budget estimates.

Metered Water and Sewer Sales – The 2026 adopted budget includes metered water and sewer sales revenues, totaling \$5 million (\$2.5 million each), the same amount budgeted for 2025. In fiscal year 2025 actual revenues exceeded the amount budgeted by \$171,000 and 107,000, respectively. In October 2025, prior to passing the 2026 budget, the Board raised the metered water and sewer rates by \$0.05 per gallon for in-district residents and \$0.10 per gallon for out-of-district residents. However, officials did not increase the amount budgeted for metered water

and sewer sales. Town officials should ensure relevant factors, such as rate increases, are taken into consideration when forming budget estimates.

Water and Sewer Benefit Assessment Fee – The 2026 adopted budget includes water and sewer assessment fees totaling \$3.4 million (\$1.5 million and \$1.9 million, respectively). In fiscal year 2025, actual revenues exceeded the amount budgeted by approximately \$400,000 for each of these revenues. In October, prior to the Board passing the 2026 budget, the Town held a public hearing and finalized the benefit assessment role providing officials with the basis to estimate the assessment fees. Further, officials raised the rates for both fees in September 2025. However, they increased the water and sewer benefit assessment fee by \$10,000 and \$390,000, respectively, despite underestimating the 2025 actuals by \$400,000 for each of these revenues. Town officials should ensure relevant factors, such as rate increases and prior year actuals, are taken into consideration when forming budget estimates.

Water and Sewer Management Charge – The 2026 adopted budget includes water and sewer management charge revenues totaling \$75,000. The Town budgeted \$75,000 each year for water and sewer management charges in the general fund in fiscal years 2023 through 2026, despite not receiving any revenues in any of the fiscal years reviewed. The revenue is a chargeback from the Town's water and sewer funds to the general fund for resources expended on the billing and collection of metered water and sewer sales. The Comptroller and Deputy Comptroller indicated that the Board and Supervisor are responsible for creating Water and Sewer Management charge estimates. Town officials should review this budgeted revenue and determine whether chargebacks are occurring properly.

Appropriations

Debt – The 2026 adopted budget did not include appropriations for principal and interest payments on the 2026 bond anticipation note (BAN) renewal. Furthermore, during 2024 and 2025, the Town paid \$2.7 million in BAN principal and interest payments that were not budgeted for across all funds. As a result, the Town underestimated the budget for debt payments by approximately \$1.8 million.

Tax Certiorari – The Town has approximately 50 tax certiorari claims composed of both commercial and residential claims. The Town's 2026 adopted budget includes an appropriation of \$40,000; however, the Town received a judgment for an ongoing claim of approximately \$600,000 which was not included in the budget. Therefore, Town officials may have underestimated tax certiorari appropriations by approximately \$560,000. Town officials should ensure relevant factors, such as outstanding tax certiorari claims, are taken into consideration when forming budget estimates.

Social Security – The 2026 adopted budget includes an appropriation of approximately \$876,000 for Social Security. Based on the total payroll budget of approximately \$18.9 million, Town officials should have budgeted approximately \$1.2 million. Therefore, Town officials may have underestimated Social Security by approximately \$295,000.

Medicare – The 2026 adopted budget includes an appropriation of approximately \$215,000 for Medicare. Based on the total payroll budget of approximately \$18.9 million, Town officials should have budgeted approximately \$274,000. Therefore, Town officials may have underestimated Medicare by approximately \$58,000.

Contingency Appropriation – The 2026 adopted budget includes a general fund contingency appropriation of \$3,500. Contingency accounts are used by local governments as a means of providing funding for unexpected events. Considering recent economic conditions, the budgetary concerns discussed in this letter and the use of fund balance, Town officials should consider establishing a contingency appropriation at a level that will provide the Town with adequate funding for any significant unforeseen costs, such as increases in expenditures or revenue shortfalls.

Salaries – The 2026 adopted budget includes general fund salaries of approximately \$12.8 million. In 2025, the Town's adopted budget included an appropriation of approximately \$12.2

million for general fund salaries, but the actual amount paid totaled approximately \$11.7 million. Despite overestimating general fund salaries in 2025, Town officials increased the budget for general fund salaries in the 2026 adopted budget. Therefore, Town officials may have overestimated salaries by approximately \$770,000.

We reviewed the Town's salary schedule used to create the budget. We determined that the salary schedule included salaries for vacant positions totaling \$744,950 which were appropriated in the budget. Further, we determined that there were salaries totaling \$1.2 million appropriated in the 2026 budget that were not included on 2026 salary schedule and only had prior year actuals totaling \$12,229. Town officials should ensure the information used when forming budget estimates contains complete and accurate information.

Retirement – The 2026 adopted budget includes a total retirement appropriation of approximately \$5 million; \$2.5 million for police and fireman retirement benefits (PFRS) and \$1.3 million for employee retirement benefits (ERS). These amounts were higher than both the projections provided by New York State Local Retirement System (NYSLRS) in September 2025 and actual amounts paid in February 2026. Specifically:

- PFRS projections provided by NYSLRS totaled approximately \$2.1 million. However, Town officials still budgeted approximately \$2.5 million, which resulted in an approximate overestimated amount of \$440,000. Furthermore, the Town paid approximately \$2 million, a difference of approximately \$500,000.
- ERS projections provided by NYSLRS totaled approximately \$1.19 million. However, Town officials still budgeted approximately \$1.3 million, which resulted in an approximate overestimated amount of \$112,000. Furthermore, the Town paid approximately \$1.14 million, a difference of approximately \$158,000.

Health Insurance – The 2026 adopted budget includes an appropriation of approximately \$6.9 million for health insurance. The actual 2025 expenditures were \$6.4 million; however, this amount did not consider employee contributions totaling \$305,000. Town officials should ensure relevant factors, such as employee contributions, are considered when forming budget estimates.

Other Matters

Inadequate Budgeting – The 2023 through 2025 fiscal years' budgets included appropriations for line items with no expenditures totaling \$8.9 million while also not including appropriations for 60 line items that had actual expenditures totaling \$5.7 million. These were generally the same appropriations year over year. For example, as discussed in the debt section above, BAN principal and interest was an expenditure made without an appropriation in each of the three fiscal years. For the 2026 adopted budget, we identified at least two appropriations where Town officials increased the appropriation for the 2026 budget that had no expenditures in the previous three years. Therefore, Town officials will likely have the same trend for the 2026 budget.

Golf – The Town-owned golf course is managed by a third-party contractor (Contractor), who provides an annual budget to the Town for Board approval. The Board then incorporates the Contractor's annual budget into the Town's budget within the Town's enterprise fund. Town records indicate that the fund has experienced an operating deficit (loss) in each of the three most recent fiscal years, including operating losses in both 2023 and 2025 that exceeded \$100,000 per year.

The Board relied on the budget developed by the Contractor; however, the Contractor-provided budget was not accurate and, as a result, the Town's budget:

- Underestimated the enterprise (golf) fund's operating expenses in 2023 by approximately \$675,000 (34 percent),
- Underestimated the (golf) fund's operating expenses in 2024 by approximately \$712,000, (35 percent), and

- Overestimated the (golf) fund's operating expenses in 2025 by approximately \$529,000, (25 percent).

The Board also included appropriations provided by the Contractor, including multiple salary lines, and general and administration expenses, when there were no actual expenditures attributed to these appropriations. Inaccurate budgeting contributed to realized operating deficits.

Overall Conclusion

The budget included appropriated fund balance as well as significant revenue and expenditure projections that were not always reasonable or supported. While the one-time State aid of \$4 million will ease concerns for the 2026 fiscal year, the combination of these factors puts the Town at risk of declining financial condition. As stated earlier, the observations and recommendations resulting from this review were largely influenced by the quality and quantity of materials submitted by Town officials, and was limited due to concerns with the Town's accounting and financial records and unsupported budgetary estimates.

Going forward, it is imperative that the Board, Town officials and Comptroller prioritize updating and correcting the Town's accounting records, create future budgets utilizing all sources of information, actively monitor the results of operations against budgetary provisions, and be prepared to take decisive action if necessary.

Recommendations

The Board and Town officials should:

1. Work with the Comptroller to determine current fund balance levels and develop a plan to maintain fund balance at a reasonable level to ensure funds are available in case of unanticipated expenditures or a shortfall in revenues during the fiscal year.
2. Utilize prior year operating results and work with department heads to develop accurate budget estimates for hotel occupancy tax, mortgage tax, building permits, fines and forfeited bail and franchise tax revenues, and closely monitor revenues throughout the fiscal year and make any needed budget amendments if revenues fall short of estimates.
3. Utilize prior year operating results as well as relevant factors such as annual rate changes when developing estimates for metered water and sewer sales and water and sewer benefit assessments fee revenues and closely monitor revenues throughout the fiscal year and make any needed budget amendments if revenues exceed estimates.
4. Provide the Comptroller with the water and sewer management charge estimate and ensure the chargebacks are occurring.
5. Monitor tax certiorari, Social Security, and Medicare expenditures closely throughout the year to ensure the budgeted appropriation is sufficient.
6. Consider establishing contingency appropriation at a level that will provide the Town with adequate funding for any significant unforeseen costs.
7. Ensure that all expenditures in the budget have amounts budgeted and are being used from year to year.
8. Work with the contracted golf course management company to approve and adopt more accurate and realistic budgets for the Town's enterprise (golf) fund and identify potential revenue enhancements and cost savings to avoid future operating deficits.

The Supervisor should:

9. Make updating and correcting the Town's accounting records and completing all outstanding bank reconciliations a priority to ensure the Board has complete, accurate and timely financial information to monitor the Town's finances and make informed decisions.

10. Work with State officials to determine expected timing on anticipated one-time revenues, such as State aid, as well as any restrictions on the funds' use.

The Comptroller should:

11. Provide the Board with fund balance projections to help determine whether the amount included in the adopted budget is available.
12. Ensure the Town's debt schedule is updated and includes all of the Town's debt, including BANS.
13. Ensure that budgeted amounts for salary expenditures agree with the Town's salary schedules.
14. Utilize information provided by outside sources, such as NYSLRS, when developing retirement estimates.
15. Ensure that employee contributions are considered when developing the health insurance budget.
16. Remove all appropriations that do not have actual expenditures and ensure that all expenditures have amounts appropriated when developing future budgets.

We hope this information is useful as you develop the 2027 budget. If you have any questions on the scope of our work, please feel free to contact Mr. James L. Latainer, Chief of Municipal Audits of our Newburgh Regional Office, at (845) 567-0858.

Sincerely,

Robin L. Lois, CPA
Deputy Comptroller

cc: Town Board
Lauren Baum, Comptroller
Louisa M. Ingrassia, Town Clerk
James L. Latainer, LGSA Regional Chief of Municipal Audits