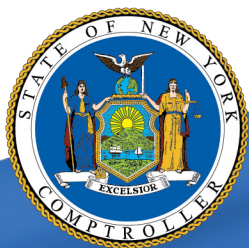


Village Of Walden

Financial Condition

FEBRUARY 2018



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

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Report Highlights

Village of Walden

Audit Objective

Determine whether the Board and Village officials appropriately managed the Village's financial condition.

Key Findings

- The Village lacks a fund balance policy and its general fund balance decreased from \$859,588 to \$379,387 from 2013 to 2017.
- The sewer fund has not repaid the general fund \$400,000 in interfund transfers from 2014 through 2016.
- The Village has no comprehensive multiyear financial plan.

Key Recommendations

- Adopt a fund balance policy.
- The sewer fund should repay the general fund \$400,000.
- Develop and implement a multiyear comprehensive financial plan.

Village officials agreed with our recommendations and indicated they were in the process of initiating corrective action.

Background

The Village of Walden (Village) is located in the Town of Montgomery in Orange County. The Board of Trustees (Board) consists of the Mayor and six Trustees. All members are elected for a two-year term.

The Board appoints a Village Manager (Manager) to serve as the Village's chief executive officer, and the Manager is charged with overseeing all Village departments. The Manager attends all Board meetings and has right of full participation, but has no vote. In addition, the Manager is responsible for producing an annual budget as well as overseeing all Board-enacted policies.

Quick Facts

2017 - 2018 Budget	\$ 7.7 million
Population	Approximately 7,000
Area	2.1 square miles
Year Incorporated	1855

Audit Period

June 1, 2016 – September 19, 2017. To analyze financial trends, we extended our scope back to June 1, 2012.

Fiscal Management

What is Effective Fiscal Management?

The Board and Manager are responsible for making sound financial decisions in the best interest of the Village and the residents who fund the Village operations and infrastructure. To maintain a healthy financial condition the Board should:

- Maintain reasonable fund balance levels. Unrestricted fund balance acts as a cushion against normal variations in cash flow. Adopting a fund balance policy provides guidance on how fund balance will be used, as well as reasonable levels of fund balance to be maintained.
- Repay interfund transfers. New York State General Municipal Law requires that all interfund transfers be repaid as soon as funds are available, but in no event later than the close of the fiscal year in which the transfer was made.
- Not rely on short-term debt financing to fund operations and maintain infrastructure. A heavy or ongoing reliance on short-term debt indicates that the government has cash flow issues that are not being resolved.
- Adopt a comprehensive multiyear financial plan. Multiyear financial planning is a vital tool for local governments, especially those struggling with difficult financial conditions. It enables officials to identify developing revenue and expenditure trends, establish long-term priorities and goals and consider the impact of one-time financing sources or other short-term budgeting decisions on future fiscal years. Plans should include revenue and expenditure projections, reserve and fund balance plans and a fiscal improvement plan. Plans must be monitored and updated on a continuing basis.

General Fund Balance Has Declined

The Village's general fund balance decreased from \$859,588 to \$379,387 from 2013 to 2017. The general fund balance was reduced primarily by interfund transfers from 2014 through 2016 to the sewer fund totaling \$400,000. In addition, the Board appropriated fund balance in 2014 and 2016 to help finance operations. Also, the Board has not developed a comprehensive fund balance policy, which would establish clear guidelines for fund balance levels, as well as appropriate usage of fund balances. Without reasonable fund balance levels, the Village may not have adequate cash flow to meet Village needs.

According to the Manager, the sewer fund borrowed from the general fund so that they could perform Department of Environmental Conservation (DEC) mandated repairs to the aging sewer infrastructure. However, the sewer fund was unable to pay the transfer back within the fiscal year the funds were borrowed. Furthermore, while the Board can appropriate fund balance in the budget to help finance operations, doing so each year instead of planning to use recurring revenue sources can deplete fund balance to a level that is not sufficient for unanticipated expenditures.

Debt Has Increased

The Board has the ability to issue short-term debt to finance operations and repairs annually. The Village has issued bond anticipation notes (BANs) for capital projects, as well as water and sewer infrastructure repairs. From 2014 through 2017, the total short-term debt remained consistent at approximately \$2.5 million annually, approximately 32 percent of the total budget. In fiscal year 2017, the total short-term debt increased to nearly \$3.4 million. Total debt (long and short-term) increased to over \$5.2 million.

Figure 1

Total Debt	FYE 2016	FYE 2017
Short Term Debt	\$2,511,850	\$3,376,800
Long Term Debt	\$2,076,770	\$1,728,080
Installment Debt	\$156,277	\$118,365
Total Debt	\$4,744,897	\$5,223,245
Debt Increase		\$478,348
% Debt Increase		10%

The Village has incurred \$193,600 in interest payments associated with BANs during the four years reviewed.¹ The Manager stated that the Village seeks \$1 million in BANs each year.²

In addition to the BANs, the Village also has long-term debt of \$1.7 million outstanding as of the end of the 2016 fiscal year. The Village incurred interest payments associated with long-term debt during the four years reviewed, resulting in a total of \$500,593 interest expenditures for the four years reviewed.

A heavy or ongoing reliance on debt could indicate the Village has cash flow issues that are not being resolved. Repeated use of this type of borrowing may lead to fiscal stress.

The Board Has Not Developed a Multiyear Financial Plan

The Board does not have a comprehensive multiyear financial plan. Such a plan can be a valuable resource for the Board and officials and would allow them to make more informed financial decisions. For example, the plan could outline financing methods, such as accumulating funds in a reserve, to perform updates mandated by DEC to the sewer infrastructure. Developing a financial plan would be a useful tool for officials to help ensure that recurring revenue sources are

¹ Debt payment in 2017 is lower as the interest due on the increased debt will not be paid until 2018.

² \$500,000 for the general fund, \$250,000 for the water fund and \$250,000 for the sewer fund, to pay for improvements identified by the Board.

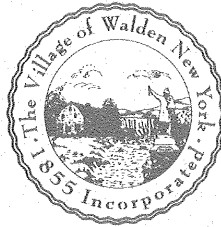
sufficient to finance operations and help prevent the over-reliance on debt to fund operations. A multiyear financial plan could also help to rebuild fund balance.

What Do We Recommend?

The Board and officials should:

1. Develop a fund balance policy to establish clear guidelines for fund balance levels, as well as appropriate use of fund balance.
2. Ensure interfund loans are repaid in a manner that complies with GML requirements.
3. Analyze borrowing to ensure debt levels are reasonable and budget for expected repairs instead of relying on debt financing, when possible.
4. Develop and implement a comprehensive multiyear financial plan. The plan should be periodically reviewed and updated as appropriate.

Appendix A: Response From Village Officials



THE VILLAGE OF WALDEN

January 23, 2018

Tenneh Blamah
New York State Office of State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, NY 12553

Dear Tenneh Blamah,

This letter is in response to the audit findings of New York State regarding the Village of Walden for the period January 1, 2016 to September 16, 2017. This letter also serves as the Village of Walden's corrective action plan.

There is a direct correlation between the first two Key findings. The Village of Walden's Sewer Fund was unable to meet its obligations for the years 2013, 2014, and 2015 and it was necessary for the General Fund to support the Sewer Fund. In 2015, when it was determined the sewer fund was unable to support its operations, the sewer rates were increased. As a direct result of the increased rates in 2017, \$50,000 of the Sewer Fund has already been paid back to the General Fund as of December 31, 2017 with the anticipation that the remainder will be paid back by the end of this fiscal year (2017-2018).

The Village is in the process of formulating a Fund Balance Policy with an estimated completion date of May 1st 2018. As there are limited concrete guidelines from the Office of the State Comptroller on appropriate fund balance levels, the village will formulate a policy that will best suit the Village's fiscal needs.

Finally, as both of the Village's labor union contracts will end on May 31 2018, that would be an appropriate time to formulate a multiyear comprehensive financial plan. The Village plans to work to enact such a plan with an estimated completion date of May 31, 2018.

On behalf of the Village Board and the employees of the Village of Walden, we would like to thank your auditors for their professionalism, insight and guidance throughout the audit process.

Sincerely,

John J. Revella
Village Manager

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Appendix B: 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 officials and reviewed Board minutes, resolutions and policies to gain an understanding of their financial process.
- We analyzed the trend in total fund balance for the Village funds for the 2012–13 through 2016-17. We compared unrestricted fund balance with budget appropriations to determine whether the Village had reasonable limits. Additionally, we reviewed fund balances and reserves to determine whether they were reasonable.
- We reviewed the total cash position for 2012-13 through 2016-17 and calculated each fund's percentage of the 2017 total for comparison purposes.
- We reviewed debt for 2012-13 through 2016-17 to calculate year-over-year changes in debt.
- We analyzed the interfund advances and loans from fiscal year 2013 through 2017 to determine if there were any outstanding loans between funds.

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 Board to make the CAP available for public review in the Village Clerk's office.

Appendix C: 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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Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.state.ny.us

www.osc.state.ny.us/localgov

Local Government and School Accountability Help Line: (866) 321-8503

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