

# Village of Margaretville

## Fiscal Management

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**AUGUST 2018**

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

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# Report Highlights

## Village of Margaretville

### Audit Objective

Determine whether the Board of Trustees (Board) provided effective fiscal management.

### Key Findings

- Village of Margaretville (Village) officials have not adopted realistic budgets and the general fund available<sup>1</sup> fund balance has increased by \$321,000 to \$592,786 (or 167 percent of 2017 expenditures) from the beginning of 2014-15 through May 31, 2017.
- The Village has no multiyear financial and capital plans or fund balance policy to plan for and finance future needs.

### Key Recommendations

- Adopt realistic budgets based on historical or other known trends.
- Use surplus general fund money as a financing source for funding one-time expenditures, funding needed reserves, reducing Village property taxes.
- Develop comprehensive multiyear financial and capital plans, including a fund balance policy.

District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

### Background

The Village is located in the Town of Middleton in Delaware County. The Board consists of the Mayor and four elected Trustees.

The Mayor, as the chief executive officer, is responsible for the Village's day-to-day management under the Board's direction. The appointed Treasurer is the chief fiscal officer and is responsible for maintaining the accounting records, preparing financial reports, and collecting, recording and disbursing money. The Village provides road maintenance, snow removal, general government support and municipal water to its residents.

#### Quick Facts

Population	600
2017-18 Tax Levy	\$563,000
2017-18 General Fund Appropriations	\$448,000
2017-18 Water Fund Appropriations	\$115,100

### Audit Period

June 1, 2016 – December 14, 2017.

We extended our audit period back to June 1, 2014 and forward to May 31, 2021 to analyze financial trends and project future results.

<sup>1</sup> Available fund balance includes unused assigned appropriated fund balance and unassigned fund balance. The appropriated fund balance remained unused because the Board overestimated budgeted appropriations, resulting in general fund surpluses. As a result, the Town did not need all of the appropriated fund balance to finance operations.

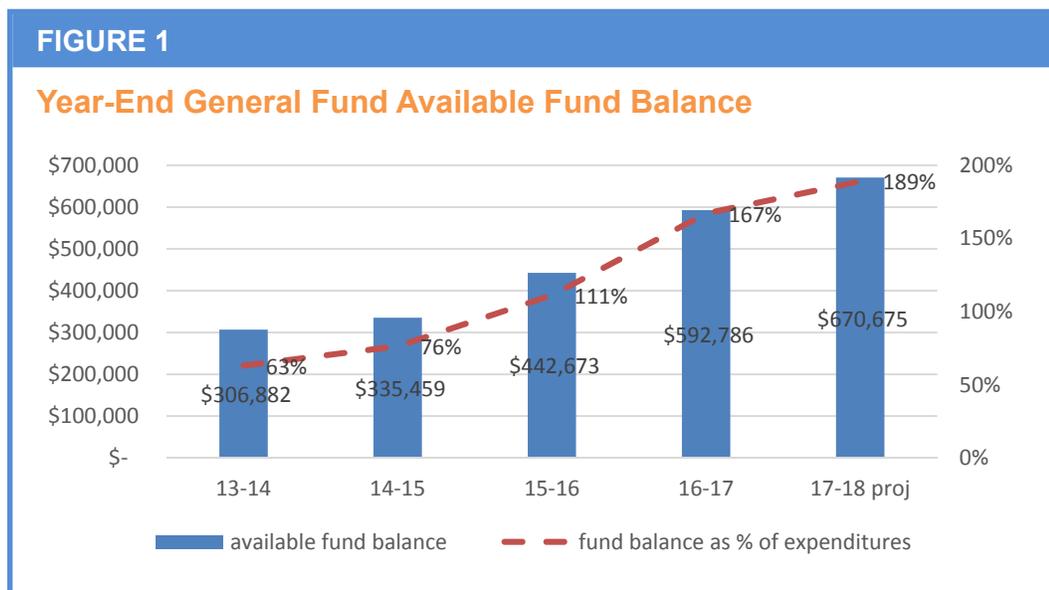
# Fiscal Management

## What Is Effective Fiscal Management?

The board is responsible for making financial decisions that are in the best interest of the Village and its residents, including adopting realistic budgets and retaining a reasonable portion of available fund balance for unforeseen circumstances and cash flow. The board should develop budgets and set equitable water user rates based on historical or known trends, the annual cost of operations, maintenance, debt service and anticipated future repairs and improvements. Multiyear financial and capital plans can help the board properly plan for and finance future needs while maintaining reasonable fund balance levels. A fund balance policy, which provides guidance on how fund balance will be maintained (including amounts legally allowed to be set aside or reserved) and used to finance costs, is an important component of a multiyear financial plan. These plans should be monitored and updated on an ongoing basis.

## General Fund Available Fund Balance Has More Than Doubled

The Board has not provided effective fiscal management of the Village's fund balance levels. From the beginning of 2014-15 through May 31, 2017, available fund balance increased by \$286,000 or 93 percent, to \$592,786. As of May 31, 2017, available fund balance was 167 percent of actual expenditures. Based on our projections for 2017-18, we expect available fund balance to continue to increase (Figure 1).



While budgeted revenues were generally reasonable,<sup>2</sup> budgeted expenditures exceeded actual expenditures in each of the last three years by an annual average of \$60,700 (14 percent). These variances were primarily driven by overestimating building maintenance and supplies, street maintenance and employee benefits. Based on historical trends, total general fund expenditure variances for 2017-18 are estimated to be similar to the prior years' average with an overall variance of \$83,300 (or 19 percent).

The Board did not consider historical trends when estimating expenditures. Instead, the current year's budget is based on the preceding year's adopted budget. Since this practice does not consider actual expenditures, if there are variances between budgeted and actual expenditures, then the current budget will most likely have similar variances.

The Board's budgeting practices, combined with maintaining significant fund balance levels, may place an unnecessary tax burden on Village residents. Although the Board has only raised taxes 1.6 percent since 2014-15, available fund balance continued to increase in the general fund.

### Water Fund Available Fund Balance Has Declined

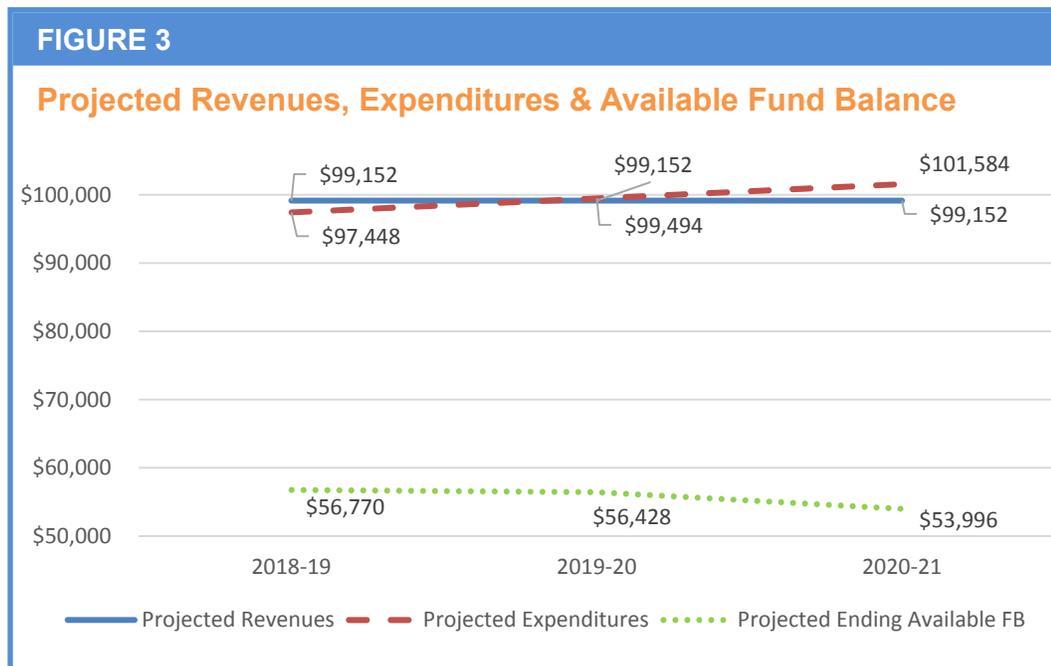
From the beginning of 2014-15 through May 31, 2017, available fund balance decreased by \$36,000 (or 35 percent), to \$67,400. Operating deficits occurred in the last two fiscal years because Village officials had unexpected pump repair costs and transferred \$10,000 to the water fund's capital reserve at the end of each year. In addition, although overall average expenditure variances were minimal, actual revenues were significantly less than budgeted each year with an annual average revenue variance of \$11,900 (11 percent).

**Figure 2: Water Fund Available Fund Balance and Results of Operations**

	2014-15	2015-16	2016-17
<b>Available Fund Balance</b>	\$102,552	\$85,038	\$67,392
<b>Results of Operations</b>	\$9,239	(\$7,513)	(\$7,647)
<b>Available Fund Balance as a percentage of Expenditures</b>	108%	80%	63%
<b>Available Fund Balance as a percentage of subsequent Appropriations</b>	100%	83%	64%

<sup>2</sup> Does not include anticipated aid related to prior year expenditures, primarily Federal Emergency Management Aid (FEMA) and one-time expenditure driven State aid.

Based on our projections, we expect available fund balance to continue to decrease (Figure 3). As with the general fund, Village officials did not generally consider historical trends when estimating revenues. We project that revenues will remain flat, while expenditures are likely to continue to increase by at least the current rate of inflation at 2.1 percent into 2020-21.<sup>3</sup>



### The Village Has No Multiyear Plans

The Board has not developed any long-term multiyear financial and capital plans or established a fund balance policy. Village officials believe the infrastructure is generally adequate with little outward appearance of significant maintenance needs. However, Village officials told us the water tower that serves the hospital, nursing home and Village in emergencies needs to be repaired or replaced. The Board has also discussed purchasing a backhoe for approximately \$80,000 in 2018. Further, the Board has been transferring \$10,000 from the general and water funds to capital reserves each year without discussing what the money is for nor recognizing the effect these transfers may have on available fund balance. The general fund generated large surpluses even after the transfer while the water fund has incurred operating deficits.

<sup>3</sup> Per United States Department of Labor, consumer price index inflation rate for the 12 month period ending March 2018

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Although it is reasonable for the Village to maintain a cushion of available fund balance, the establishment of multiyear plans and a fund balance policy would provide more transparency to Village residents on the Board's strategy for addressing future operations and capital needs.

### **What Do We Recommend?**

The Board should:

1. Adopt budgets that realistically reflect the Village's operating needs based on historical trends or other known trends.
2. Use surplus general fund money as a financing source for:
  - Funding one-time expenditures.
  - Funding needed reserves.
  - Reducing Village property taxes.
3. Develop and adopt comprehensive multiyear financial and capital plans, including a fund balance policy, to help the board properly plan for and finance future needs while maintaining reasonable fund balance levels. These plans should be monitored and updated on an ongoing basis.

# Appendix A: Response From Village Officials

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July 31, 2018

Chief Examiner OSC  
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Binghamton, NY 13901-4417

To Whom it may concern,

Please find the Village of Margaretville's response to the state audit covering the period June 1, 2016-December 14, 2107.

First, we would like to thank you for the opportunity to have an outside agency assess our fiscal strengths and weaknesses. While we strive to be ever conscetous of our fiscal responsibilities, we acknowledge that there is always room for improvement. The Mayor, village clerk and the village treasurer accept the findings of your office.

Key recommendations:

Adopt realistic budgets based on historical or other know trends. *There have been in the past few years changes in staff and needs. This along with the need to increase our dwindling reserve funds following Irene forced a large increase in taxes for the 2013-2014 year which in 2015-2017 resulted in excess budgets funds. We will address this issue in our 2018-2019 budget.*

Use surplus general fund money as a financing source for funding one-time expenditures, funding needed reserves, reducing village property taxes. *We have begun using surplus funds to purchase much needed equipment, this includes a new mower, truck, backhoe and we are in the process of replacing our municipal building roof. It is also our intention to set up a disaster reserve fund (limited) so that we will not have to levy tax payers in the event of a disaster (in our case it is almost always flooding).*

Develop comprehensive multiyear financial and capitol plans, including a fund balance policy. *Part of our financial plan will be to pay down water debt, possibly increasing water rents (due to loss of income in the water fund) and develop a clear fund balance policy.*

Regards,

Mayor Diana Cope and the Village of Margaretville Board of trustees.

## Appendix B: Audit Methodology and Standards

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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, our audit procedures included the following:

- We interviewed Village officials, reviewed Board minutes, and reviewed equipment and infrastructure to gain an understanding of the budget process, multiyear financial and capital plans and needs, any policies in effect and the potential use of reserves.
- We analyzed the trend in available fund balance in the general and water funds for 2014-15 through 2016-17 and compared the levels to annual general and water fund expenditures. We also projected results for 2017-18 and included those results in the trend analysis.
- We compared the general and water funds' estimated revenues and appropriations to the actual revenues and expenditures for 2014-15 through 2016-17 to determine whether total estimated revenues and appropriations were realistic. We also projected results of operations for 2017-18 and included those results in the analysis.
- We reviewed expenditures from 2014-15 through 2016-17 to determine which expenditure categories contributed the most to the Village's budget-to-actual variances.
- We analyzed the trend in real property tax levies from 2014-15 through 2017-18.
- We compared the fund balance in the general fund as of May 31, 2016 as a percentage of the actual expenditures to the other 12 villages in Delaware and Schoharie Counties.
- We analyzed the water fund's results of operations from 2014-15 through 2016-17, including the projected results for 2017-18.
- We projected revenues and expenditures from 2017-18 through 2020-21, to determine the impact on the general and water funds' available fund balance.

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.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning

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the value and/or size of the relevant population and the sample selected for examination.

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 Clerk's office.

## Appendix C: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://www.osc.state.ny.us/localgov/academy/index.htm)

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[www.osc.state.ny.us/localgov/index.htm](http://www.osc.state.ny.us/localgov/index.htm)

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