



Town of Black Brook

Financial Condition of Sewer and Water Districts

Report of Examination

Period Covered:

January 1, 2009 — May 31, 2012

2012M-216



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2013

Dear Town Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Town Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Town of Black Brook, entitled Financial Condition of Sewer and Water Districts. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Town of Black Brook is located in Clinton County and has approximately 1,500 residents. The Town Board (Board) is comprised of four elected council members and an elected Town Supervisor (Supervisor). The Board is responsible for overseeing the Town's operations and finances including preparing the annual budget, setting sewer and water rates to ensure that operations are adequately funded, and the periodic monitoring of the Town budget. The Supervisor is both the chief executive and chief financial officer of the Town and is elected for a four-year term.

The Town's adopted budget for the 2012 fiscal year totaled approximately \$1.71 million. In addition, the Town's budgeted appropriations totaled approximately \$44,850 for sewer district operations and \$75,800 for water district operations. The budgets for sewer and water are funded primarily with sewer and water rents.

Objective

The objective of our audit was to evaluate the financial condition of the Town's sewer and water districts. Our audit addressed the following related question:

- Does the Board adopt realistic budgets, establish appropriate user rates, routinely monitor financial operations, and take appropriate actions to maintain sewer and water district financial stability?

Scope and Methodology

We examined the financial condition of the Town's sewer and water districts for the period January 1, 2009, to May 31, 2012. We expanded our review to December 20, 2012 for an analysis of the current year's sewer and water district operations.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and

recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the 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 this plan available for public review in the Town Clerk's office.

Sewer and Water

The Board is responsible for the financial planning and management necessary to maintain the sewer and water districts' financial health. These activities include adopting budgets with realistic estimates of revenues and expenditures. The Board must adequately monitor the districts' financial operations and ensure that appropriate actions are taken to maintain the districts' financial stability. In addition, having a long-term financial plan would allow Town officials to make more informed decisions based on future needs.

The Board and Town officials were aware of revenue shortfalls and did not take the appropriate action to maintain the districts' financial stability. In addition, the Board adopted budgets for the sewer and water districts that were not reasonable or structurally balanced. This resulted in annual operating deficits, declining fund balances¹ and declining cash balances.

Financial Condition

In order to properly fund sewer and water operations, the Board should determine the annual cost of operations and maintenance for each district and the anticipated future repairs and improvements. Based on that information, the Board should revise if necessary, sewer and water user rates to generate sufficient revenues to pay the total costs necessary to properly operate and maintain the facilities and service lines. Sewer and water user fees may be increased at any time during the fiscal year, as needed.

Due to the lack of action by the Board to address revenue shortfalls, the sewer and water operations were not properly funded to meet current financial needs as user rates do not generate sufficient revenues to cover costs incurred. In addition, the Board has not adopted a multiyear financial plan to meet the future financial needs of these operations.

Sewer Service — The Town's only sewer district, Au Sable Forks-Black Brook, provides sewer service to approximately 150 users.

¹ The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term 'unexpended surplus funds' to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget (after Statement 54).

The sewer district generated \$186,112 in sewer revenues during the three years reviewed (2009-2011). To limit costs, the Town of Black Brook and the Town of Jay share the operation and maintenance costs of the wastewater treatment plant. The Town of Black Brook was responsible for the operation and maintenance of the wastewater treatment plant up to December 31, 2011. The Town of Jay became responsible for the operation and maintenance of the sewer plant, effective January 1, 2012.

For the three years we examined, the sewer district annual operating deficits totaled \$41,221 resulting in a decline in the total reported sewer fund balance from \$163,483 as of January 1, 2009 to \$122,262 as of December 31, 2011. The fund balance includes a repair reserve which totaled \$106,374 for 2009 and \$107,609 in 2011, and is related to the joint operation of the wastewater treatment plant between the Towns of Black Brook and Jay, not the individual sewer district. As a result, the remaining unexpended surplus fund balance of the sewer was \$14,653 at the end of 2011.

We reviewed the 2012 sewer budget and compared it to the operating results as of December 20, 2012 and projected the results to December 31, 2012. We calculated that the sewer district could experience another operating deficit in 2012 totaling \$4,610, further reducing unexpended fund balance to \$10,043.

**Table 1: Budget to Actual and Operating Results
Au Sable Forks-Black Brook Sewer District**

| | FY 2009 | FY 2010 | FY 2011 | FY 2012 Projected ^a | Total |
|-----------------------------|------------|-----------------------|-----------------------|-----------------------------------|------------|
| Estimated Revenues | \$88,027 | \$83,525 ^b | \$63,279 ^c | \$44,850 | \$279,681 |
| Actual Revenues | \$68,309 | \$58,374 | \$59,429 | \$37,920 | \$224,032 |
| Over/(Under) Budget | (\$19,718) | (\$25,151) | (\$3,850) | (\$6,930) | (\$55,649) |
| Estimated Appropriations | \$88,027 | \$84,625 | \$68,422 | \$44,850 | \$285,924 |
| Actual Expenditures | \$92,016 | \$70,679 | \$64,638 | \$42,530 | \$269,863 |
| (Over)/Under Budget | (\$3,989) | \$13,946 | \$3,784 | \$2,320 | \$16,061 |
| Operating Surplus/(Deficit) | (\$23,707) | (\$12,305) | (\$5,209) | (\$4,610) | (\$45,831) |

^a Effective January 1, 2012, the Town of Jay became responsible for the operation and maintenance of the joint wastewater treatment plant. As a result of the new contract, the Town of Black Brook no longer budgets for services to other governments resulting in a corresponding reduction in the sewer district budget.

^b The Board appropriated unexpended surplus totaling \$1,100 in the 2010 budget.

^c The Board appropriated unexpended surplus totaling \$5,143 in the 2011 budget.

The Board routinely budgeted revenue estimates that could not be realized based on the current sewer rates and has not increased sewer rates for over 10 years. Additionally, the district's revenues² for 2010 and 2011 were reduced by a total of \$10,000 due to the outcome of legal action taken by the Town of Jay. The result of these annual operating deficits is the district's cash balance has been reduced from \$22,894³ to a dangerously low balance of \$1,702 as of December 31, 2011. Due to the inadequate cash balance the District was forced to borrow \$25,000 from the general fund to finance operations in January 2011. The District paid back the general fund at the end of 2011, which again resulted in a depleted cash balance for 2012.

The Board was aware that the sewer user charges were not sufficient to meet the operating needs of the sewer district and Town officials were considering ways to restructure the rates. However, there are no plans in place to address how or when they will accomplish this. We reviewed Board minutes from January 1, 2009 to December 31, 2011 and found minimal documentation of Board discussions related to sewer rates and no specifics on how it plans on increasing revenues.

Subsequent to our audit fieldwork we reviewed the 2013 adopted sewer budget and found the total budget increased to \$71,394. Town officials told us that they were increasing sewer rates for 2013 and anticipate receiving both Federal and State aid for storm damage to make upgrades necessary for damage incurred from Tropical Storm Irene. As of December 6, 2012 they had not increased the rates to reflect the amount included in the budget.

Water Service — The Town has two water districts that provide water service to approximately 240 users⁴ and generated \$241,181 in water revenues during the three years 2009-2011. We found the Board adopted budgets for Black Brook Water District #1 that contained revenue estimates that were not realistic and included insufficient water rates to fund operations. Additionally, the Board relied on a one-time revenue source and the use of unexpended surplus fund balance to fund the recurring costs of operating the district. Furthermore, in 2011 the water district experienced damage due to Tropical Storm Irene which incurred unanticipated costs.

We examined the revenues collected in 2009 and 2010 and found that the water district received more than \$100,000 from the sale of forest products. According to Town officials, the proceeds from these sales were used to fund operations of the district by spending

² For sewer services to the Town of Jay

³ As of December 31, 2009

⁴ Black Brook Water District #1 has approximately 215 users and the Black Brook Water District #2 has 25 users.

the proceeds though the appropriation of unexpended fund balance totaling approximately \$41,500 and \$23,000 respectively in the 2010 and 2011 budgets. The remaining \$35,500 was used to pay for repairs incurred due to Tropical Storm Irene in 2011. However, we found the district experienced operating deficits in those same years totaling \$48,872 and \$73,040 (see Table 2) which exceeded the planned operating deficits through the use of fund balance by \$7,300 in 2010 and \$50,000⁵ in 2011. As a result of these operating deficits, the unexpended surplus fund balance of the district declined from \$73,754 as of January 1, 2009 to \$21,923 on December 31, 2011, a total decrease of \$51,831.⁶ In addition, the district's cash balance has declined from \$143,365 on December 31, 2009 to \$31,352 as of December 31, 2011.

We also reviewed the 2012 budget for this district and compared it to actual results through December 20, 2012 and then projected year end results for 2012. We found the district continues to have insufficient revenues from user charges and estimate another operating deficit in 2012 totaling \$18,035 further reducing unexpended surplus fund balance to \$3,888. The continual decreases in fund balance without adjusting rates to provide sufficient revenues for operations can significantly impair the district's financial flexibility and cause potential cash flow concerns.

| | FY 2009 | FY 2010 | FY 2011 | FY 2012 Projected | Total |
|---|----------------|-----------------------|-----------------------|------------------------------|--------------|
| Estimated Revenues | \$84,860 | \$46,300 ^a | \$36,725 ^b | \$65,575 ^c | \$233,460 |
| Actual Revenues | \$134,634 | \$38,031 | \$43,735 | \$42,745 | \$259,145 |
| Over/(Under) Budget | \$49,774 | (\$8,269) | \$7,010 | (\$22,830) | \$25,685 |
| Estimated Appropriations | \$84,860 | \$87,860 | \$59,506 | \$65,575 | \$297,801 |
| Actual Expenditures | \$64,412 | \$86,903 | \$116,775 | \$60,780 | \$328,870 |
| (Over)/Under Budget | \$20,448 | \$957 | (\$57,269) | \$4,795 | (\$31,069) |
| Operating Surplus/(Deficit) | \$70,222 | (\$48,872) | (\$73,040) | (\$18,035) | (\$69,725) |
| ^a The Board appropriated unexpended surplus funds totaling \$41,560 in the 2010 budget. ^b The Board appropriated unexpended surplus funds totaling \$22,781 in the 2011 budget. ^c For 2012, the budget included \$10,000 in FEMA reimbursements and \$10,100 for an interfund loan that was misclassified as a revenue source. | | | | | |

Similar to the sewer rates, Town officials increased the 2013 estimated revenues for the water district based on planned increases to the rates; however the updated rates had not been adopted as of December 6, 2012.

⁵ In 2011, the District experienced approximately \$50,000 in damage due to Tropical Storm Irene.

⁶ The fund balance decrease includes \$141 for a prior-period adjustment in 2011.

Relying on one-time revenues and unexpended surplus fund balance to finance recurring expenditures is an imprudent practice in local government budgeting. Doing so results in budgets that are not structurally balanced and future budgets that have funding gaps and potentially require large rate increases.

We also examined the results of operations of the Black Brook Water District's #2 and found unexpended surplus fund balance has remained relatively stable over the three years 2009-11.

Multiyear Financial Plan

Planning on a multiyear basis allows for Town officials to identify developing revenue and expenditure trends, set long-term priorities and goals, and avoid large fluctuations in rates of assessment on benefited properties and user charges. It also allows Town officials to assess the impact and merits of alternative approaches to address financial issues such as increasing operation and maintenance expenditures and changes to the service levels provided to residents. It is also important for the Board to adopt realistic budgets and develop a long-term plan to identify recurring sources of revenue sufficient to finance anticipated recurring expenditures.

The Board has not adopted a long-term capital plan or a long-term financial plan to address the corresponding costs and future repairs and maintenance costs. Significant increases in fixed costs can limit the Town's flexibility in dealing with those budgetary expenditures over which the Board exercises some degree of control, such as debt service. When added to the declining fiscal health of the sewer and water districts, the Town may find it increasingly difficult to fund operations, especially if an unforeseen event should occur.

Recommendations

1. The Board should adopt realistic sewer and water budget estimates for revenues and expenditures based on historical data, current trends and should also take into consideration future repairs and improvements for each district.
2. The Board should review the sewer and water rates annually and revise them, if necessary, to generate sufficient revenue to cover appropriations.
3. The Board should develop a multiyear financial plan to establish clear goals and objectives for funding the Town's long-term operating and capital needs. The Board and Town officials should frequently monitor and update the plan to ensure that its decisions are based on the most accurate and up-to-date financial information.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

The local officials' response to this audit can be found on the following pages.



Town of Black Brook Est. 1889

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January 9, 2013

State of New York Office of the State Comptroller

2012M-216

January 1, 2009-May 31, 2012

WATER DISTRICT 1

Corrective Action

The Town of Black Brook Town Board voted to raise the quarterly water rates from \$37.50 to \$50.00 per quarter for 215 water users (by meter) for the first 15,000 gallons of water used. Any water used above the 15,000 gallons will be billed an additional \$2.50 for every 1,000 gallons used above the 15,000 gallons. This was billed at \$2.00 a gallon previous to 2013 for water used above 15,000 gallons.

All new curb installations will be billed a flat rate of \$250.00, something that the Town of Black Brook never charged for previous to 2013.

Water users will be billed a flat rate of \$25.00 to have water turned on and off.

By increasing the rate \$12.50 per quarter we will see an increase of \$10,750.00 in revenues for 2013.

Because of Tropical Storm "Irene" (8/29/11) we had several Emergency projects to do in the Water District 1 that will be repaid with FEMA funds.

SEWER

Corrective Action:

The Town of Black Brook Town Board voted to increase the sewer rates for homeowners effective January 1, 2013 from \$61.25 to \$81.25 per quarter for a One Family Home. Multiple Units will be billed \$162.50 for 2 Family, \$243.75 for 3 Family and \$325.00 for 4 Family.

Business Owners will be billed a rate of \$100.00 per business from \$61.25 (M&M Diner) (Au Sable Dental) and (Hometown Deli). \$100.00 from \$75.00 (American Legion) and \$100.00 from \$93.75 (Stewart's Shops). Plus any new business (Family Dollar) will be billed a rate off \$100.00 per quarter. This will increase our revenue for 2013 by \$13,450.00 a year. Also, any tanks that need to be pumped out, before the cycle of 3 years the cost of the pumping will be billed to the business owners.

As stated in the report the Town of Black Brook was involved in legal action with the Town of Jay over the jointly owned Sewer Plant, which the Town of Black Brook incurred \$25,000.00 in legal defense cost that was not budgeted for. The Town of Jay withheld payments to the Town of Black Brook, leaving us to pay the full amount due to creditors for one year. Also, Tropical Storm "Irene", involved major repairs to the Town's infrastructure which was not budgeted for, and will be repaid with the anticipated FEMA funds.

The Town Board will monitor very closely the yearly totals of the revenues and the expenses of both Water District 1 and the Sewer District and anticipate with a reserve fund any future repairs and improvements to both districts. NOTE: The sewer rates had not been changed since 1996, the rate at that time was \$81.25 and the Town of Black Brook had a surplus we were advised to reduce the rates to \$61.25, after an audit. We realize now that we made a mistake, and that the rates should have been increased a little at a time to maintain a good balance.

MULTI-YEAR FINANCIAL PLAN

The Town of Black Brook is currently working on a 5 year plan to monitor both the Water and Sewer Departments. We will have a new software program [REDACTED] in place on January 15, &16, 2013 that will provide us with much greater details within both the Water and Sewer Departments. We will monitor to see if the increased rates will be enough to maintain both departments and if not we will increase the rates again in 2014. We will increase the amount of money in the reserve accounts for manitance and repairs for Water and Sewer Department. Please feel free to contact us with any questions or concerns. We would like to Thank [REDACTED], [REDACTED] and [REDACTED] for all of their help during this audit.

Respectfully,

Ricky L. Nolan, Supervisor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the financial condition of the sewer and water districts. To accomplish this, we performed an initial assessment of the sewer and water districts' financial condition so that we could design our audit to focus on those areas most at risk. During the initial assessment, we interviewed appropriate Town officials, performed limited tests of transactions and reviewed pertinent documents, such as Town policies and procedures, Board minutes, and financial records and reports. Our audit included various procedures to gather relevant evidence concerning our stated objective, as follows:

- We interviewed appropriate Town officials to gain an understanding of the budget development process for the sewer and water districts.
- We interviewed appropriate Town officials and reviewed Board minutes from January 1, 2009 through December 31, 2011 to determine how and on what basis the current sewer and water rates were established, and if they were reviewed annually and revised if needed. We also reviewed minutes prior to these dates for historical data.
- We reviewed the Town's financial records for fiscal years 2009 through 2011 to determine the unexpended surplus/deficit fund balances and cash balances for the sewer and water districts.
- We analyzed actual results of operations for the sewer and water districts for fiscal years 2009 through 2011 reported on the Town's financial records to determine if there were operating deficits. We also analyzed the actual results of operations for the sewer and water districts for the 2012 fiscal year through December 20, 2012, in order to project if the districts were going to realize operating deficits.
- We compared the adopted budgets for the sewer and water districts for the fiscal years ending December 31, 2009 through December 31, 2012 with the actual results of operations to determine if the budgeted revenues and appropriations were reasonable and if the budgets were structurally balanced.
- We interviewed appropriate Town officials to determine if a multiyear financial plan had been established.

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

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