



# Town of Lewisboro

## Financial Condition

### Report of Examination

Period Covered:

January 1, 2013 — June 30, 2014

2014M-309



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

February 2015

Dear Town Officials:

A top priority of the New York State 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 State 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 Lewisboro, entitled Financial Condition. This audit was conducted pursuant to Article V, Section 1 of the New York State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State 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 Lewisboro (Town) is located in Westchester County and has approximately 12,400 residents. The Town Board (Board) is the legislative body responsible for establishing policies, and the Town Supervisor (Supervisor) is responsible for administering the Town's daily operations. The Supervisor is the Town's chief fiscal officer and is responsible for establishing internal controls over financial operations and monitoring the budget. The Town Comptroller is responsible for maintaining the Town's accounting records.

As of January 2014, the Town had 36 fulltime employees. Budgeted appropriations for the 2014 fiscal year were approximately \$10.4 million (general fund \$7.6 million and highway \$2.8 million), funded primarily with real property taxes and State aid. In addition, the Town operates one water district and two sewer districts.

## Objective

The objective of our audit was to review the Town's financial condition. Our audit addressed the following related question:

- Did Town officials ensure that the Town was fiscally stable?

## Scope and Methodology

We examined the Town's financial condition for the period January 1, 2013 through June 30, 2014. We extended our scope back to 2009 for analytical purposes.

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 is included in Appendix C 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 disagreed with certain aspects of our findings and recommendations in our report. Appendix B includes our comments on the issues raised in the Town's response letter.

The Town 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 Town Board to make this plan available for public review in the Town Clerk's office.

## Financial Condition

Financial condition may be defined as a local government's ability to balance recurring expenditure needs with recurring revenue sources, while providing desired services on a continuing basis. A town in good financial condition generally maintains adequate service levels during fiscal downturns and develops resources to meet future needs. Conversely, a town in fiscal stress may struggle to balance its budget, can suffer through disruptive service level declines, may have limited resources to finance future needs and often has minimal cash available to pay current liabilities as they become due.

The Town's general, sewer and water funds each had a deficit fund balance at some point during the period from 2009 through 2013. The general, water and sewer funds all had accumulated fund deficits for fiscal years 2009, 2010 and 2011. While Town officials were able to improve the fiscal stability of the general fund during this period, which reported a positive accumulated fund balance in 2012 and 2013, the sewer and water funds still had accumulated fund deficits in 2012. The sewer and water funds had accumulated deficits from 2009 through 2012. The Town reported marginal positive accumulated fund balances of \$23,442 and \$8,967, respectively, for 2013. While Town officials were able to eliminate accumulated fund deficits in these funds by the end of 2013, officials have not developed a multiyear financial plan to assist them in monitoring operations and guarding against future operating deficits.

### Fund Balance

A key measure of the Town's financial condition is its level of fund balance, which is the difference between revenues and expenditures accumulated over time. When maintained at reasonable levels, fund balance provides cash flow and can be used to help finance the next fiscal year's operations. The restricted portion of fund balance represents the amount that the Town may use only for specific purposes. The unrestricted portion of fund balance is the amount that may be appropriated to fund programs in the next year's budget. Assigned appropriated fund balance is an amount that was designated to help finance the current year's budget while unassigned fund balance is available for cash flow purposes and to help finance future operations.

To assist in managing financial operations and ensuring the orderly operation of government, the Town should maintain a reasonable level of unrestricted fund balance as a financial cushion for unanticipated expenditures or revenue shortfalls or for cash flow purposes. Maintaining a reasonable level of unrestricted fund balance is a key element of long-term financial planning.

General Fund – In 2009, the Town’s actual revenues were \$6,075,770, which were \$1.2 million less than the \$7.3 million budgeted, a shortfall of approximately 17 percent. Actual expenditures totaled \$7,950,474, which resulted in an operating deficit of \$1,874,695. This caused a general fund deficit of \$655,312 at year end. It took two years of operating surpluses to return the general fund to a positive accumulated fund balance.

The general fund’s financial condition continued to improve in 2013 with an operating surplus of \$257,362. This resulted in two years of positive unrestricted fund balances, 2012 and 2013, and growth in the accumulated fund balance to \$1,048,096.

Although Town officials have improved their budgeting practices over the four years 2010 to 2013, they did not have a multiyear financial plan in place to ensure that this new growth in the general fund will be maintained to keep the financial condition of the Town stable.

**Figure 1: General Fund Operating Results and Fund Balance**

	2009	2010	2011	2012	2013
Beginning Fund Balance	\$793,573	(\$655,312)	(\$338,100)	\$32,958	\$790,734
Prior Period Adjustment	\$425,810	\$0	\$0	\$428,709	\$0
Revenues	\$6,075,779	\$7,310,469	\$7,231,628	\$7,435,918	\$7,827,208
Expenditures	\$7,950,474	\$6,993,257	\$6,860,570	\$7,106,851	\$7,569,846
Operating Surplus/(Deficit)	(\$1,874,695)	\$317,212	\$371,058	\$329,067	\$257,362
Year-End Accumulated Fund Balance	(\$655,312)	(\$338,100)	\$32,958	\$790,734	\$1,048,096
Less Restricted Fund Balance	\$206,837	\$328,082	\$452,474	\$350,496	\$713,816
Unrestricted Fund Balance/(Deficit)	(\$862,149)	(\$666,182)	(\$419,516)	\$440,238	\$334,280

Sewer Fund – The sewer fund relies on revenue from real property taxes (approximately 90 percent) and planning and development fees to finance operations for the Town’s two sewer districts. These revenue sources have not provided sufficient revenue to finance operations. The Town increased taxes by about 86 percent in 2010. According to Town officials, this was used to revitalize the sewer districts that were left in disrepair from when the districts were privately operated.

During the five-year period, the fund incurred operating deficits in two years (2009 and 2011) and operating surpluses for the other three years (2010, 2012 and 2013). The 2013 operating surplus was attributed to a planning permit requirement for a development project in one sewer district for \$200,000. Without this planning permit revenue, the sewer fund would have experienced an operating deficit

for 2013 and the fund would have had five consecutive years of total fund deficits.

Town officials expect that the planning permit requirement will result in revenue of \$1 million over several years. However, there are no specific dates when these phases are scheduled to start. If this revenue is realized, it will provide stability to the sewer fund in the long-term. However, if this revenue is not realized, the sewer fund will likely continue to have a fund deficit.

Figure 2: Sewer Fund Operating Results and Fund Balance					
	2009	2010	2011	2012	2013
Beginning Fund Balance	\$1,120	(\$401,853)	(\$250,387)	(\$269,085)	(\$116,533)
Prior Period Adjustment	(\$114,998)	\$0	\$0	\$124,926	\$0
Revenues	\$538,161	\$719,879	\$575,221	\$776,536	\$906,591
Expenditures	\$826,136	\$568,413	\$593,919	\$748,910	\$766,616
Operating Surplus/(Deficit)	(\$287,975)	\$151,466	(\$18,698)	\$27,626	\$139,975
Year-End Accumulated Fund Balance	(\$401,853)	(\$250,387)	(\$269,085)	(\$116,533)	\$23,442
Less Restricted Fund Balance	\$0	\$0	\$0	\$0	\$23,442
Unrestricted Fund Balance/(Deficit)	(\$401,853)	(\$250,387)	(\$269,085)	(\$116,533)	\$0

Water Fund – The water fund relies on revenues from user charges to finance its operations. The water fund had accumulated fund deficits from 2009 through 2012. Although 2013 showed a positive accumulated fund balance of \$8,967 due to decreased expenditures, this was marginal. Water fund revenues have remained relatively constant over the last five years. Town officials have not developed a long-term plan to address the accumulated fund deficit.

Figure 3: Water Fund Operating Results and Fund Balance					
	2009	2010	2011	2012	2013
Beginning Fund Balance	(\$229,995)	(\$42,895)	(\$35,392)	(\$92,812)	(\$37,646)
Prior Period Adjustment	\$189,006	\$0	\$0	\$33,894	\$0
Revenues	\$186,782	\$181,731	\$139,880	\$183,297	\$175,862
Expenditures	\$188,688	\$174,228	\$197,300	\$162,025	\$129,249
Operating Surplus/(Deficit)	(\$1,906)	\$7,503	(\$57,420)	\$21,272	\$46,613
Year-End Accumulated Fund Balance	(\$42,895)	(\$35,392)	(\$92,812)	(\$37,646)	\$8,967
Less Restricted Fund Balance	\$0	\$0	\$0	\$0	\$8,967
Unrestricted Fund Balance/(Deficit)	(\$42,895)	(\$35,392)	(\$92,812)	(\$37,646)	\$0

## **Multiyear Financial Planning**

An important Board responsibility is to plan for the future by setting adequate long-term priorities and goals. To address this responsibility, it is important for Town officials to develop comprehensive multiyear financial and capital plans to estimate the future costs of ongoing services and future capital needs. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period and help Town officials identify revenue and expenditure trends, set long-term priorities and goals and avoid large fluctuations in tax rates. Multiyear plans also allow Town officials to assess the effect and merits of alternative approaches to address financial issues. Long-term financial plans work in conjunction with Board-adopted policies and procedures to provide necessary guidance to employees on the financial priorities and goals set by the Board. The Board should monitor and update long-term financial plans on an ongoing basis to ensure that its decisions are guided by the most accurate information available.

Town officials have not adopted a multiyear financial plan that would better equip them in making financial decisions. Although officials have improved their budgeting practices over the four years, they did not have a multiyear financial plan in place to ensure that this new growth in the general fund is maintained to keep the financial condition of the Town stable.

## **Recommendations**

Town officials should:

1. Develop a realistic plan to accumulate and maintain a reasonable amount of fund balance in all Town funds.
2. Develop a comprehensive multiyear financial plan to establish long-term objectives for funding long-term needs.

## **APPENDIX A**

### **RESPONSE FROM TOWN OFFICIALS**

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

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PETER H. PARSONS, SUPERVISOR

February 3, 2015

Chief Examiner Tenneh Blamah  
New York State  
Office of the State Comptroller  
Newburgh Regional Office  
33 Airport Center Drive, Suite 103  
New Windsor, NY 12553

Re: **Report of Examination of the Financial Condition of the Town of Lewisboro**

Dear Chief Examiner Blamah:

Attached is our response to your preliminary draft findings.

Yours sincerely,

Peter Parsons  
Supervisor

Attachment

**RESPONSE TO NEW YORK STATE COMPTROLLER'S REPORT ON THE TOWN OF  
LEWISBORO'S FINANCIAL CONDITION BASED ON THE PERIOD JANUARY 1, 2013 TO  
JUNE 30, 2014**

All managers know that in most cases we can choose to view the glass as being half empty or as being half full. Your auditors chose the former. The Town Board chooses the latter using the same figures quoted in your report:

1. **The period from 2010 to 2013 is one in which Lewisboro has exercised remarkable financial discipline resulting in General Fund Operating Surpluses in each year and an improvement in the Unrestricted Fund Balance from a deficit of \$862,149 at the close of 2009 to a positive balance of \$334,280 at the end of 2013. This swing of \$1,196,429 is in excess of 10% of the Town's annual expenditures.** During this period the Lewisboro also brought all its municipal offices into compliance with the Americans with Disabilities Act and adopted a 15 year paving plan for Town roads. Year I of this plan was implemented in 2014 and budgetary provision has been made for Year II in 2015. Since road repaving is the dominant item in Lewisboro's capital budget, this represents a critical building block in a multi-year plan. In addition the Town Board remains committed to continuing to make steady progress in improving its fund balances. Finally the completion of the current round of negotiations with the Town's Unions will provide the basis of planning for the operating budget. This will put Lewisboro in a situation where putting a multi-year plan on paper will be little more than a formality. **To characterize these achievements by censuring Town Officials for not ensuring "the Town is fiscally stable" seems like a gratuitous attack on an exemplary record.**

See  
Note 1  
Page 12

2. The criticism of the Water and Sewer Funds seems to come down to a truism about one sewer district. If revenue from the developer "is realized, then it will provide stability to the sewer fund in the long term. However, if this revenue is not realized, the sewer fund will likely continue to have a fund deficit." The implication is that the Town should raise the taxes on the residents of the district just in case the developer fails to complete future phases of the development. This is a group of residents who already suffered an 86% increase in their sewer taxes in 2010. The Board's judgment is that this would amount to gouging the taxpayer when there is little or no reason to believe that the rest of the development will not be completed.

See  
Note 2  
Page 12

To summarize:

- The heavy lifting on a multi-year plan has either been done or is in the works.
- The underlying refrain in the report is that we should raise Lewisboro's taxes faster. We believe in a slow and steady approach doing our best to remain within the Tax

Cap. The Town already has a long term record of sharing services with its neighbors (phosphorous reduction in storm water, emergency medical services, drug enforcement, and vacuum trucks) and the track record shows the achievement of significant efficiencies.

## **APPENDIX B**

### **OSC COMMENTS ON THE TOWN'S RESPONSE**

#### Note 1

The draft report was amended to show improvement in the general fund fiscal stability.

#### Note 2

Town officials should use multiyear planning as a tool to help them address the deficits in the water and sewer funds. Our report does not imply that Town officials should raise taxes on residents. The report points out the fund deficits in the water and sewer funds and recommends that Town officials address those deficits.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the Town's financial condition and identify areas where the Town could realize efficiencies and protect assets from loss or misuse. To accomplish this, our initial assessment included a comprehensive review of the Town's financial condition.

To achieve our objective and obtain valid audit evidence, we performed the following audit procedures:

- We reviewed the Town's policies and procedures for developing and reporting information relevant to financial and budgeting activities. This included gaining information on Town officials' fiscal responsibilities.
- We interviewed Town officials such as the Supervisor and the Town Comptroller to determine what processes were in place and gain an understanding of the Town's financial condition and budget.
- We reviewed and analyzed the Town's financial records and reports for all funds, including balance sheets, budget reports and statements of revenues and expenditures.

We conducted this performance audit in accordance with 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.

## APPENDIX D

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