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May 22, 2015

Trish Abato, Mayor  
Members of the Board of Trustees  
Village of Suffern  
61 Washington Avenue  
Suffern, NY 10901

Report Number: B8-15-13

Dear Mayor Abato and Members of the Board of Trustees:

Our Office has recently completed a review of the Village of Suffern's (Village) budget for the 2015-16 fiscal year. The objective of the review was to provide an independent evaluation of the adopted budget. Our review addressed the following question related to the Village's budget for the 2015-16 fiscal year:

- Are the significant revenues and appropriations in the Village's adopted budget reasonable?

To accomplish our objective in this review, we requested your adopted budget, salary schedules, debt service payment schedules and other pertinent information. We identified and examined significant estimated revenues and appropriations for reasonableness with emphasis on significant and/or unrealistic increases or decreases. We analyzed, verified and/or corroborated trend data and estimates, where appropriate. We identified any significant new or unusually high revenue estimates or appropriations, made appropriate inquiries and reviewed supporting documentation to determine the nature of the items and to assess whether the estimates and appropriations were realistic and reasonable. In addition, we inquired and checked whether written recommendations from our previous examination of the Village's financial condition were implemented or resolved and, therefore, incorporated as part of the current year's budget.

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.

The adopted budget package submitted for review for the fiscal year ending 2015-16 consisted of the following:

- Cover Letter
- 2015-16 Adopted Budget
- Supplementary Information

The adopted budget submitted to our Office is summarized as follows:

<b>Fund</b>	<b>Appropriations And Provisions for Other Uses</b>	<b>Estimated Revenues</b>	<b>Real Property Taxes</b>	<b>Other Financing Sources</b>
General	\$12,947,370	\$2,406,126	\$10,541,244	
Water	\$1,934,642	\$1,934,642	\$0	
Sewer	\$3,005,735	\$1,716,135	\$0	\$1,289,600

Based on the results of our review, except for the matters described below, we found that the significant revenue and expenditure projections in the adopted budget are reasonable. The adopted budget relies on a 16 percent property tax increase to finance the general fund budget deficiencies because there are no other sources available to reduce the property tax levy, such as fund balance. In addition, the Board of Trustees (Board) has adopted rate increases of approximately 5 percent in water and sewer rents because the revenues generated have not been sufficient to finance yearly appropriations for the water and sewer funds. The sewer fund budget also includes proceeds of bonds totaling \$1,262,500. Village officials have stated that they plan to issue deficit financing bonds to alleviate the unassigned deficits in the operating funds.

Our review disclosed the following findings which should be reviewed by the Board for appropriate action. Good management practices require that Village officials take prompt action concerning our recommendations. We believe that prompt action by Village officials will help improve the Village's financial condition.

### **Fund Balances**

A key measure of the Village'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. In our report of examination that covered the 2011-12 fiscal year,<sup>1</sup> we noted unassigned fund deficits in the general, water and sewer funds. The deficits grew even further in 2013-14<sup>2</sup> as preliminary reports showed operating deficits of about \$844,647 for the general fund and \$182,877 for the sewer fund and a small operating surplus for the water fund of \$64,000. However, the Board took no action to remedy the Village's poor financial condition until the adoption of the 2015-16 budget. The adopted budget included increases in revenues for these funds, which may help improve operating results for fiscal year 2015-16. Figure 1 shows the unassigned fund balance levels for the three major funds.

<sup>1</sup> *Village of Suffern – Financial Condition (2013M-273)*

<sup>2</sup> As of April 24, 2015, audited financial statements were not yet available for the 2013-14 year.

<b>Figure 1: Unassigned Fund Balance (Deficit)<sup>a</sup></b>			
	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14<sup>b</sup></b>
<b>General</b>	(\$115,192)	(\$1,544,617)	(\$2,389,264)
<b>Water</b>	(\$608,038)	(\$1,227,221)	(\$1,162,817)
<b>Sewer</b>	(\$847,486)	(\$1,508,757)	(\$1,691,634)

<sup>a</sup> We were not able to compute balances for 2014-15 based on the current status of the Village's financial records.

<sup>b</sup> As of April 24, 2015, audited financial statements were not available for the 2013-14 fiscal year. These amounts are based on preliminary reports provided by Village officials and are subject to change.

## Water and Sewer Funds

The water fund's adopted budget for 2015-16 includes revenue of \$1,934,642, an increase of approximately \$94,000 from the 2014-15 adjusted budget. On April 27, 2015, Village officials increased water rates by 5 percent to generate additional revenue to gradually reduce the deficit in the water fund. The preliminary reports of operations for the water fund for 2013-14 and projected results for 2014-15 showed surpluses of \$64,404 and approximately \$209,000,<sup>3</sup> respectively, which, along with the rate increase, could eventually eliminate the deficit in the water fund.

The sewer fund had an unassigned fund balance deficit of almost \$1.7 million as of May 31, 2014, based on available preliminary financial reports. As shown in Figure 2, sewer revenues fell short each year by a range of approximately \$175,000 to \$295,000. The sewer fund had an operating deficit of \$182,876 in 2013-14 and is projecting an operating deficit of approximately \$111,000 in 2014-15, which will further increase the unassigned deficit. The 2015-16 adopted budget increased sewer rates by approximately 5 percent which officials hope will result in operating surpluses in future years.

<b>Figure 2: Sewer Fund Revenue</b>			
	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>2012-13</b>	\$1,650,489	\$1,474,033	(\$176,456)
<b>2013-14</b>	\$1,660,531	\$1,485,185	(\$175,346)
<b>2014-15</b>	\$1,834,678	\$1,538,962	(\$295,716)

## Tax Cap Compliance

The State Legislature and the Governor enacted Chapter 97 of the Laws of 2011 that established a tax levy limit on all local governments, which was effective beginning in the 2012 fiscal year. The law precludes local government from adopting a budget that requires a tax levy that exceeds the prior year tax levy by more than 2 percent or the rate of inflation, whichever is less, unless the Village Board adopts a local law to override the tax levy limitation. The Village's tax cap submission for the 2014-15 budget exceeded the allowable tax levy limit by \$70,228. However, the Board did not take the appropriate action to override the tax levy limit and did not set aside the \$70,228 in a reserve as required. The adopted budget for 2015-16 has an approved tax levy of

<sup>3</sup> Includes actual expenditures through April 29, 2015 and projected expenditures through May 31, 2015. The expenditures could be greater than projected if those incurred in May 2015 do not follow the 11-month trend.

\$10.54 million, representing an increase of \$1.4 million or 16 percent over the 2014-15 levy. The Board adopted a local law which allows the Village to override the tax levy limitation.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of New York State General Municipal Law, the Board should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days. We encourage the Board to make this plan available for public review in the Village Clerk's office. For guidance in preparing your plan of action and filing this report, please refer to the attached documents.

If you have any questions on the scope of our work, please feel free to contact Tenneh Blamah, Chief Examiner of the Newburgh Regional Office, at 845-567-0858.

Sincerely,

Gabriel F. Deyo  
Deputy Comptroller

cc: Michael Genito, Treasurer  
Virginia Menscher, Village Clerk  
Andrew A. SanFilippo, Executive Deputy Comptroller  
Tennah Blamah, Chief, Newburgh Regional Office