



# Village of Bergen

## Financial Condition

### Report of Examination

Period Covered:

June 1, 2006 — March 27, 2012

2012M-97



Thomas P. DiNapoli

# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	2
<b>INTRODUCTION</b>	3
Background	3
Objective	3
Scope and Methodology	3
Comments of Local Officials and Corrective Action	3
<b>FINANCIAL CONDITION</b>	4
Recommendations	5
<b>APPENDIX A</b> Response From Local Officials	7
<b>APPENDIX B</b> Audit Methodology and Standards	10
<b>APPENDIX C</b> How to Obtain Additional Copies of the Report	11
<b>APPENDIX D</b> Local Regional Office Listing	12

# State of New York Office of the State Comptroller

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

August 2012

Dear Village 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 Village 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 Village of Bergen, entitled Financial Condition. 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 Village of Bergen is located in Genesee County and has a population of approximately 1,200 residents. The Village is governed by four Trustees and a Mayor, which constitutes the elected Board of Trustees (Board). The Board is the legislative body responsible for managing Village operations, including establishing appropriate internal controls over financial operations and monitoring finances to maintain a sound financial condition.

The Village's adopted budget for the 2011-12 fiscal year totaled more than \$1.1 million for the general, sewer, and electric funds, and was funded primarily with real property taxes, sales tax, and user charges.

## Objective

The objective of our audit was to assess the financial condition of the Village's general and sewer funds. Our audit addressed the following related question:

- Is the Board adequately managing the Village's surplus fund balance?

## Scope and Methodology

We examined the financial condition of the general and sewer funds for the period June 1, 2006, to March 27, 2012.

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 Village officials and their comments, which appear in Appendix A, have been considered in preparing this report. Village officials 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 Clerk-Treasurer's office.

# Financial Condition

One component of local government budgeting is the prudent use of fund balance, which is the difference between revenues and expenditures accumulated over time. Village officials can legally set aside, or reserve, portions of fund balance<sup>1</sup> to finance future costs for a specified purpose, or can designate the unexpended surplus portion of fund balance to help finance the next year’s budget. The Board may retain a reasonable level of unexpended surplus funds, consistent with prudent budgeting practices, as a financial cushion for unforeseen financial circumstances. Toward this end, the Board should adopt a policy that addresses the level of unexpended surplus funds to be maintained and specifies how the Board expects to use the surplus. A well-supported, realistic budget helps ensure that Village residents are not taxed more than necessary to fund operations.

The Board has accumulated a significant amount of surplus funds that could have been used to lessen the tax burden of Village residents. Furthermore, the Board has not adopted a policy that addresses the maintenance of a reasonable amount of unexpended surplus funds, or specifies how the Board expects to use the surplus.

Table 1 shows the Village’s financial activity over a five-year period:

<b>Table 1: Operating Results and Fund Balance</b>					
	<b>FY 2006-07</b>	<b>FY 2007-08</b>	<b>FY 2008-09</b>	<b>FY 2009-10</b>	<b>FY 2010-11</b>
<b>General Fund</b>					
Beginning Fund Balance	\$623,025	\$756,705	\$681,299	\$530,740	\$510,868
Actual Revenues	\$711,621	\$683,154	\$657,161	\$763,423	\$632,207
Actual Expenditures	\$549,740	\$705,911	\$786,557	\$783,295	\$655,499
Operating Surplus/(Deficit)	\$161,881	(\$22,757)	(\$129,396)	(\$19,872)	(\$23,292)
Prior Period Adjustments	(\$28,201)	(\$52,649)	(\$21,163)	\$0	(\$2,950)
Total Year-End Fund Balance	\$756,705	\$681,299	\$530,740	\$510,868	\$484,626
Less: Restricted Fund Balance	\$16,156	\$16,809	\$17,579	\$17,673	\$17,749
Less: Appropriated Fund Balance for Ensuing FY	\$232,995	\$208,736	\$144,538	\$161,079	\$65,547
Unexpended Surplus Funds	\$507,554	\$455,754	\$368,623	\$332,116	\$401,330
Unexpended Surplus as % of Ensuing Year’s Appropriations	56%	52%	47%	44%	55%

<sup>1</sup> 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).

<b>Table 1: Operating Results and Fund Balance (continued)</b>					
	<b>FY 2006-07</b>	<b>FY 2007-08</b>	<b>FY 2008-09</b>	<b>FY 2009-10</b>	<b>FY 2010-11</b>
<b>Sewer Fund</b>					
Beginning Fund Balance	\$417,657	\$371,244	\$336,966	\$365,232	\$415,296
Actual Revenues	\$260,892	\$303,618	\$426,733	\$386,428	\$477,532
Actual Expenditures	\$301,481	\$334,054	\$368,492	\$336,364	\$367,101
Operating Surplus/(Deficit)	(\$40,589)	(\$30,436)	\$58,241	\$50,064	\$110,431
Prior Period Adjustments	(\$5,824)	(\$3,842)	(\$29,975)	\$0	\$11,060
Total Year-End Fund Balance	\$371,244	\$336,966	\$365,232	\$415,296	\$536,787
Less: Restricted Fund Balance	\$162,263	\$181,406	\$159,260	\$160,051	\$160,731
Less: Appropriated Fund Balance for Ensuing FY	\$34,539	\$0	\$0	\$0	\$17,505
Unexpended Surplus Funds	\$174,442	\$155,560	\$205,972	\$255,245	\$358,551
Unexpended Surplus as % of Ensuing Year's Appropriations	54%	41%	67%	69%	94%

This significant accumulation of funds resulted from the practice of not using surplus funds as a financing source in the ensuing years' budgets. As indicated in Table 2, the Village used less surplus than budgeted. Therefore, surplus fund balance was not reduced by the amount that the Village had budgeted it to be reduced.

For the sewer fund, the Board did not adopt a balanced budget for the 2010-11 fiscal year. Estimated revenues exceeded appropriations by \$50,129. Furthermore, the Board did not appropriate any fund balance in the 2008-09 and 2009-10 fiscal years. As a result, surplus fund balance increased to 94 percent of the ensuing year's appropriations as of May 31, 2011.

<b>Table 2: Planned Deficits and Operating Results</b>					
	<b>FY 2006-07</b>	<b>FY 2007-08</b>	<b>FY 2008-09</b>	<b>FY 2009-10</b>	<b>FY 2010-11</b>
<b>General Fund</b>					
Planned Surplus/(Deficit)	(\$162,828)	(\$232,995)	(\$208,736)	(\$144,538)	(\$161,079)
Operating Surplus/(Deficit)	\$161,881	(\$22,757)	(\$129,396)	(\$19,872)	(\$23,292)
Variance	\$324,709	\$210,238	\$79,340	\$124,666	\$137,787
<b>Sewer Fund</b>					
Planned Surplus/(Deficit)	(\$85,500)	(\$34,539)	\$0	\$0	\$50,129
Operating Surplus/(Deficit)	(\$40,589)	(\$30,436)	\$58,241	\$50,064	\$110,431
Variance	\$44,911	\$4,103	\$58,241	\$50,064	\$60,302

Village officials indicated that at the end of the 2011-12 fiscal year, the general fund would end with an operating surplus, while the sewer fund would have a small operating deficit. Therefore, the general and sewer funds will continue to carry excess surplus fund balance similar to previous years.

## Recommendations

1. The Board should adopt a policy and develop procedures that address the use of unexpended surplus funds. Such uses could include, but are not limited to:
  - Establishing reserves

- Paying off debt
  - Financing one-time expenses
  - Reducing property taxes and user charges.
2. The Board should adopt balanced budgets with realistic estimates for anticipated needs and that are based on historical spending.
  3. If the Board's intent is to accumulate funds for a particular purpose, fund balance should be placed in appropriate reserves. Otherwise, the Board should maintain enough fund balance to provide for cash flow purposes and use the rest to benefit taxpayers.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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



*Village of Bergen*  
Incorporated in 1877  
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July 27<sup>th</sup>, 2012

Mr. Robert Meller, Chief Examiner  
Office of the State Comptroller  
Division of Local Government  
295 Main Street, Suite 1032  
Buffalo, New York 14203-2510

Re: Village of Bergen Financial Condition Audit

Dear Mr. Meller:

This letter is in response to the NYS Comptroller's Financial Condition Audit, number 2012M-97, examining June 1<sup>st</sup> 2006 to May 31<sup>st</sup> 2012. We ask that this letter serve as the Village's response and action plan.

The Board of Trustees for the Village of Bergen would like to thank the Office of the State Comptroller for their fair and thorough audit. Prior to the state audit many of the same issues were identified leading the Board to commission an internal audit. Through those findings steps have been taken to correct these issues, which include balanced budgets, fund balances, and the creation of reserves.

**Policy and Procedures** – Surplus funds in the General and Sewer fund were not officially earmarked. However, the funds were intended for specific purposes. In the General Fund, surplus funds have been accumulated for road and drainage reconstruction of Munger Street. In the Sewer Fund, the surplus funds were intended, in part, for the replacement of aging septic tanks and pump stations. The Board will enter into the official record those purposes whether it is by resolution or the creation of reserves. Furthermore, the Board will create and adopt policies and procedures to follow in the future.

**Balanced Budgets** – The Village Board passed a balanced budget for both Sewer and General funds for the 2012-2013 fiscal year. This was accomplished by using five year actual expenditures versus prior year budgeted amounts and creating reserves for the purchase of heavy equipment.

**Fund Balances** –

General Fund - The Board believes keeping the unexpended surplus funds balance at 34% of ensuing year's appropriations is reasonable for the following reasons. Sales tax

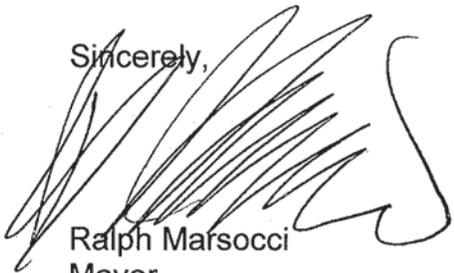
from Genesee County accounts for 36% of total revenue in the General Budget. With the allocation of these funds solely in the hands of the county legislature the Board feels that it is prudent to keep a fund balance that would protect the village in case a change is made in the distribution of funds.

Bergen Municipal Electric is heavily dependent on a single industrial customer, the loss of that customer would decrease operating revenue by over 80% at which time it may be necessary for the General Fund to help support the Electric Fund or face losing the department. As stated above the Board will officially establish this policy and create procedures to ensure the balance remains at 34%.

Sewer Fund - It should be noted that in the Sewer Fund \$120,000 or 34% of the surplus balance was a onetime connection fee from the Byron-Bergen Central School District. The funds will be used to reduce the sewer debt charge per the schedule adopted by the Board of Trustees on August 10<sup>th</sup> 2011. The Board also feels it is necessary to keep the surplus fund balance at 34% of the ensuing years appropriations to accommodate unforeseen maintenance of the Village's sewer system. The gray water sewer system is over 25 years old and will become susceptible to failure, primarily in the pump stations as well as septic tanks and sewer lines.

The Village of Bergen is in a solid financial position and we continue to explore ways, in tough financial times, to protect against financial pitfalls that have devastated so many other municipalities. We hope that even though the finances were not correctly labeled that it is apparent that our intentions are to keep Bergen in the best financial condition for the future.

Sincerely,



Ralph Marsocci  
Mayor  
Village of Bergen

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed appropriate Village officials and employees, tested selected records, and examined pertinent documents for the period June 1, 2006, through March 27, 2012. Our procedures included the following:

- We obtained an understanding of the Village's internal controls related to the budget development and monitoring process.
- We obtained information related to the Board's financial oversight and reviewed the minutes of Board meetings.
- We analyzed revenue and expenditure trends and the changes in fund balance of the general and sewer funds for fiscal years 2006-07 through 2010-11.
- We compared budgeted revenues and appropriations to actual revenues and expenditures.

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.

## APPENDIX C

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