



# City of Peekskill

## Financial Condition

### Report of Examination

Period Covered:

January 1, 2011 — December 31, 2013

2014M-105



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**

June 2014

Dear City 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 City Common Council governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard city expenditures within budgeted appropriations.

Following is a report of our audit of the City of Peekskill, 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 are resources for local 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 City of Peekskill (City) is located in Westchester County and has a population of approximately 23,600 and 200 employees. The City Common Council (Council) serves as the legislative body responsible for the City's overall operations. The City Manager serves as the chief executive officer and the City Comptroller serves as the chief financial officer.

The City provides the following services to its residents: public safety, health, transportation, economic opportunity and development, culture and recreation, home and community services, and general and administrative support. These services are financed primarily by real property taxes, sales tax and State aid. The City's budgeted general fund expenditures for the 2013 fiscal year were approximately \$35.3 million.

## Objective

The objective of our audit was to examine the City's financial condition to determine if City officials are effectively managing the City's fund balance. Our audit addressed the following related question:

- Are Council members and City officials effectively managing the City's financial condition to maintain a reasonable level of fund balance in the general fund?

## Scope and Methodology

We examined the City's financial condition for the period January 1, 2011 through December 31, 2013.

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 City Officials

The results of our audit have been discussed with City officials and their comments, which appear in Appendix A, have been considered in preparing this report. City officials generally agreed with our findings.

## Financial Condition

The Council, City Manager and City Comptroller are responsible for the financial planning and management necessary to maintain the City's fiscal health. As such, an essential component of their duties and responsibilities is to make sound financial decisions that are in the best interests of the City and the taxpayers that fund its operations. This responsibility requires City officials to balance the level of services desired and expected by City residents with the ability and willingness of the residents to pay for such services. To maintain good fiscal health, it is imperative that City officials adopt structurally balanced budgets that provide recurring revenues to finance recurring expenditures, identify and adjust to long-term changes, and plan for service and capital needs beyond the current year. A key measure of a city's financial condition is its level of general fund balance, which is the difference between operating revenues and expenditures accumulated over time. When maintained at reasonable levels, general fund balance can provide cash flow, help finance the next fiscal year's operations or help manage unexpected costs.

An appropriation of fund balance is the use of unexpended resources from prior years to finance appropriations in the budget. This is an acceptable practice when a municipality has accumulated an adequate level of fund balance. However, when local government officials continuously appropriate fund balance, resulting in a planned operating deficit<sup>1</sup> each year, this gradually depletes the fund balance until there is none available to finance successive budgets. This budgeting practice will eventually result in the municipality needing to either increase revenues (e.g., property taxes) and/or decrease appropriations (e.g., services) to adopt structurally balanced budgets.

We reviewed budget-to-actual general fund results for the 2011 through 2013 fiscal years and found that City officials had adopted realistic budgets. The City Manager reviewed budget-to-actual comparison reports throughout the year and kept expenditures within budgeted appropriations. However, heavy reliance on appropriated fund balance as a financing source in the 2011 and 2012 fiscal years resulted in a significant reduction in the City's general fund balance and unassigned fund balance.<sup>2</sup>

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<sup>1</sup> A planned operating deficit occurs when a municipality purposely adopts a budget in which expenditures are greater than anticipated revenues, with the difference to be funded with appropriated fund balance.

<sup>2</sup> Unassigned fund balance is the amount of fund balance that remains after a governing board restricts, commits or assigns moneys for use elsewhere.

From the end of the 2010 through 2012 fiscal years, City officials expended 30 percent of the general fund's total fund balance, leaving a total of \$7,196,748 from \$10,348,401. During the same period, the general fund's unassigned fund balance decreased from \$5,221,835 to \$7,556 (Table 1).

Unaudited results for the 2013 fiscal year indicated that the City would have an operating surplus for the year, with an excess of \$779,656 in revenues over expenditures, which would increase the total general fund balance by 11 percent, to \$7,976,404. City officials estimated that they will use approximately \$500,000 of the \$779,656 in the 2014 budget to increase the general fund's unassigned fund balance.

**Table 1: General Fund Balance**

Fiscal Year	2010	2011	2012	2013 <sup>a</sup>
Total Fund Balance	\$10,348,401	\$8,717,455	\$7,196,748	\$7,976,404
Unassigned Fund Balance	\$5,221,835	\$2,762,856	\$7,556	\$507,556
<sup>a</sup> Based on unaudited financial information				

According to City officials, the City appropriated fund balance in 2011 to limit the City's tax rate increase to 1 percent. The City appropriated fund balance in 2012 to make an additional payment to the New York State and Local Retirement System for the Contribution Stabilization Program. This program enables the City to pay a portion of its annual retirement contributions over time, leading to smoother, more predictable pension costs.

Beginning in the 2013 fiscal year, City officials took steps to replace fund balance. These included the following actions:

- Eliminating 33 positions through attrition and layoffs.
- Entering into a new contract with the City's Police Benevolent Association that reduced the starting salary of new police officers by \$15,000 per year, effective January 1, 2014.
- Soliciting competitive bids for insurance coverage to reduce insurance costs by approximately \$100,000.
- Implementing a 3 percent room tax on hotels, motels and rooming houses in the City, effective January 1, 2014.
- Adopting a balanced budget for the 2014 fiscal year that did not appropriate fund balance as a funding source.

Based on the City's 2013 revenue increases<sup>3</sup> and cost-saving measures adopted in 2013, it appears that City officials are properly managing the City's financial condition. City officials should continue to implement cost-saving measures and reduce the City's dependence on using unassigned fund balance as a source of financing operations.

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<sup>3</sup> Based on unaudited financial information

## **APPENDIX A**

### **RESPONSE FROM CITY OFFICIALS**

The City officials' response to this audit can be found on the following page.





**CITY OF PEEKSKILL  
CITY HALL  
CITY MANAGER**

**840 Main Street  
Peekskill, New York 10566**

**(914) 734-4246  
Fax: (914) 734-4196**

June 3, 2014

[REDACTED]  
State of New York - Office of the State Comptroller  
Newburgh Regional Office  
33 Airport Center Drive, Suite 103  
New Windsor, New York 12553

**Re: City of Peekskill – Preliminary Draft Findings 2014M-105  
Report of Examination Period Covered January 1, 2011 – December 31, 2013**


Dear [REDACTED]:

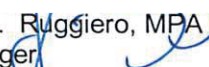
On behalf of the Mayor and Common Council, thank you for the opportunity to comment on your findings. It was a pleasure working with you and the City appreciates the opportunity to review, and if necessary, modify and/or improve our process. As a general comment, the City would like to say that this review covered the period from January 1, 2011 through December 31, 2013, and since that time, a number of management and elected official changes has taken place. As noted in your report, the City has instituted a number of improvements to our procedures and budgeting process.

A couple of items that the City would like to comment on are the following:

1. On page 5 and 6 of the Financial Condition Report, it indicates that the City's unaudited results for FY 2013 shows the City with having Unassigned Fund Balance in excess of \$779,656. The actual Unassigned Fund Balance will be \$803,192. An improvement of \$795,636 over the prior year.
2. The City has settled with Local 456 Blue Collar Unit for its members to start contributing to the coverage of health care. The City has negotiated with Local 456 White Collar Unit for its members to start contributing to the coverage of health care; this contract will be voted on by its members the week of June 9, 2013.

Thank you again for the opportunity to comment on the Preliminary Draft Report of Examination. The City has always considered its relationship with the Office of the State Comptroller as a partnership and welcomes your comments on managing our resources efficiently and effectively. Please feel free to contact me at 914.734.4245 or [aruggiero@cityofpeekskill.com](mailto:aruggiero@cityofpeekskill.com) with any questions or if you require additional information.

Very truly yours, 

Anthony J. Ruggiero, MPA  
City Manager 

cc: Mayor Catalina and Common Council  
Jessie Boyd, Deputy Comptroller

## **APPENDIX B**

### **AUDIT METHODOLOGY AND STANDARDS**

Our overall goal was to assess the City's financial condition. To accomplish our audit objective and obtain relevant audit evidence, our procedures included the following:

- We reviewed the City's policies and procedures for developing and reporting information relevant to financial and budgeting activities.
- We interviewed City officials to determine the processes that were in place for, and to gain an understanding of, the City's financial situation and budget.
- We obtained and reviewed the two most recent independent audit reports (2011 and 2012) of the City's financial statements.
- We reviewed and analyzed the City's financial records and reports for the general fund, including balance sheets, budget status reports and statements of revenues and expenditures.
- We compared data from the City's annual financial reports from 2011 through 2013 to illustrate the changes in the City's revenues and expenditures and use of fund balance.

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 C**

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