



# Town of Carlisle

## Fund Balance

### Report of Examination

Period Covered:

January 1, 2016 – February 7, 2017

2017M-106



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**

September 2017

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 Carlisle, entitled Fund Balance. 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 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 Carlisle (Town) is located in Schoharie County (County) and serves approximately 2,000 residents. The elected five-member Town Board (Board), composed of four Board members and the Town Supervisor (Supervisor), is the legislative body responsible for managing the Town's operations, including maintaining a sound financial condition. The Supervisor serves as the chief executive and chief fiscal officer.

The Town provides various services to its residents, including road repair and maintenance, snow removal, Justice Court operations and general government support. The 2017 budget for the general and highway funds totaled approximately \$827,305, funded primarily with real property taxes, sales tax and State aid.

## Objective

The objective of our audit was to evaluate the Town's fund balance management. Our audit addressed the following related question:

- Did the Board properly manage the Town's fund balance?

## Scope and Methodology

We examined the Board's general fund balance management for the period January 1, 2016 through February 7, 2017. We extended our scope period back to January 1, 2005 to analyze fund balance, real property taxes and budgeting trends.

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 C of this report.

## Comments of Town 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. Appendix B includes our comment on an issue raised in the Town's response.

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 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.

## Fund Balance

The Board may retain a reasonable portion of fund balance to be available in the event of unforeseen circumstances and to provide cash flow to compensate for timing differences between receipts and disbursements. Accordingly, the Board should establish reasonable levels of fund balance to maintain to ensure that taxes are appropriate for the residents' needs. The Board may also establish and place money into reserves to finance future costs for a variety of purposes.

It is important for the Board to plan for the future by setting adequate long-term priorities and goals. Having a long-term financial plan helps the Board assess alternative approaches to financial issues, such as accumulating fund balance, obtaining financing or using surplus funds to finance annual operations. A fund balance policy, which provides guidance on how fund balance will be used, is an important component of any long-term financial plan.

It is also essential that the Board use sound budgeting practices when developing budgets to ensure its plans are implemented. During the budget process, the Board should review historical trends when estimating revenues and expenditures, to the extent possible, to limit budget to actual variances. These practices help ensure that the amount of real property taxes levied is not greater than necessary.

The Board could improve its fund balance management. Over the past 20 years, the Board accumulated money in the general fund in anticipation of an appeal of pending tax assessment cases. During this time, the general fund balance grew to more than \$2 million at the end of 2008 in anticipation of having to pay significant sums for successful appeals. However, the appeals were settled in the Town's favor and the general fund accumulated fund balance totaled almost 4,600 percent of the 2008 tax levy of \$45,391, (the equivalent of 46 annual tax levies).

The Board has taken some steps to reduce its significant fund balance over the last ten years. For example, a significant portion of the general fund balance (approximately \$1.2 million) was used for infrastructure improvements. The Board authorized and constructed a new Town hall complex and a new highway garage in 2009 and 2010 using fund balance as the financing source and reduced the tax levy by nearly 95 percent from 2005 through 2009.

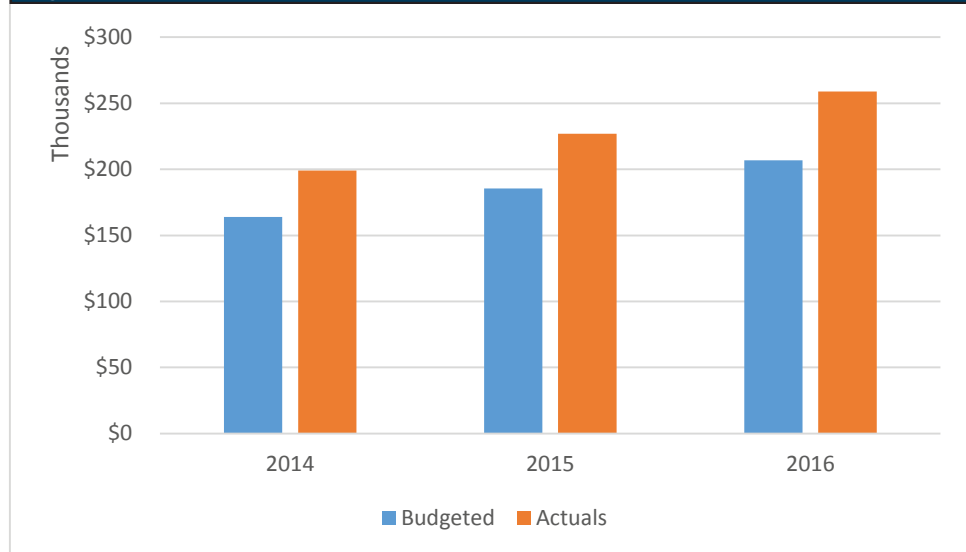
Since then, the Board has adopted general fund budgets that included planned use of fund balance. However, the Board increased real

property taxes to finance operations and its conservative budgeting practices nullified the Board’s plan to spend fund balance as intended. As a result, general fund balance totaled \$623,000 at the end of 2016, more than 950 percent of the tax levy and approximately three times actual expenditures that year. From 2014 through 2016, Town officials appropriated an average of \$79,000 in general fund balance each year and spent a total of \$25,800. This resulted in a 4 percent decrease in overall general fund balance over these years.

We compared estimated revenues and appropriations with actual operating results for 2014 through 2016. The Board underestimated revenues by more than \$128,000 (an annual average of 23 percent) and overestimated expenditures by more than \$83,000 (an annual average of 11 percent) over these years.

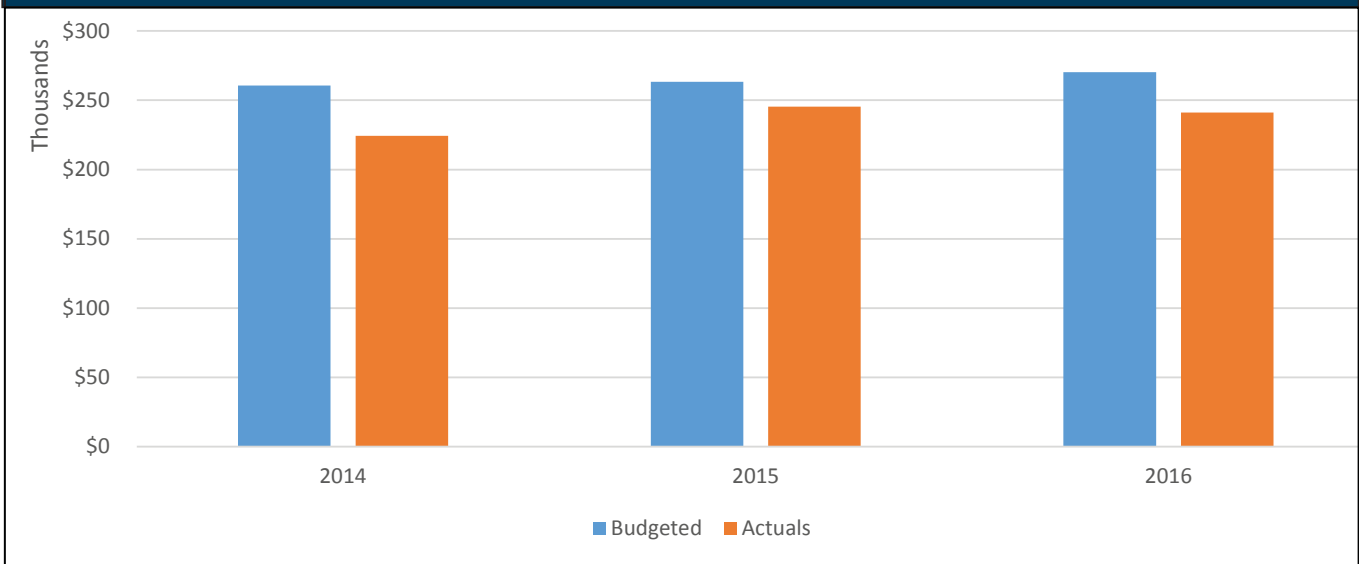
The most significant revenue variances were for underestimated sales tax and mortgage tax revenues. For example, Town officials budgeted \$20,000 each year for sales tax revenue but received an average of \$32,000 each year. Similarly, Town officials budgeted \$12,000 each year for mortgage tax revenues but received an average of \$24,000 each year. While both these revenues can be affected by the general economic environment, since 2008 actual sales tax revenue totaled between \$29,000 and \$36,000 and actual mortgage tax revenue totaled between \$21,000 and \$32,000.

**Figure 1: General Fund Revenues**



The most significant expenditure variances were for overestimated judgements and claims (an average of \$5,180) and employee benefits (an average of \$5,576). Town officials told us that they determined the budget estimates by adjusting individual line items based on a variety of factors including input from department personnel, known upcoming events and other economic factors.

**Figure 2: General Fund Expenditures**



The condition of Town infrastructure is generally very good with little outward appearance of disrepair or significant maintenance needs. The Supervisor told us that Town officials discussed replacing a cold storage building at the Town’s highway facility, replenishing the highway fund equipment reserve and installing ball fields on the Town hall property.

While these steps may reduce available fund balance, no formal plans are yet in place to use, or otherwise reduce, the significant amount of fund balance accumulated in the general fund. Although it is reasonable for the Town to maintain a cushion in fund balance for unforeseen events, the Board has not developed a fund balance policy or comprehensive long-term financial and capital plans specifying the Town’s objectives and goals for using the accumulated funds.

Without clear plans for the use of these surplus funds, Town officials may have raised more real property taxes than necessary. Over the last three years, Town officials raised real property taxes close to the maximum allowable by the tax levy limit,<sup>1</sup> while at the same time they maintained high fund balance levels. The Board is in the process of finalizing extensions to its PILOT agreements,<sup>2</sup> which will impact future revenues and thereby, fund balance levels.

Based on a predetermined formula, the County distributes a portion of its sales tax collections to the Town. The Board elected to receive

<sup>1</sup> 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 governments from adopting a budget with a tax levy that exceeds the prior year tax levy by more than 2 percent or the rate of inflation, whichever is less, and certain exclusions permitted by law, unless the Board adopts a local law to override the tax levy limitation.

<sup>2</sup> Extensions of current PILOT agreements with expected revenues totaling approximately \$4.1 million over the next 14 to 15 years.

the Town's share of sales tax from the County, instead of allowing the County to keep the Town's share to reduce the County real property tax levy for Town residents. For 2017, if Town officials had elected to allow the County to keep the Town's share of sales tax,<sup>3</sup> the County tax rate per thousand of assessed valuation would have decreased from \$12.08 to \$11.65 (a reduction of 3.6 percent) for real property located in the Town.

Had the Board elected not to receive sales tax from the County from 2014 through 2016, the Town would have eliminated the average \$32,000 in sales tax revenues received each year. As a result, general fund balance would have decreased by 15 percent with no change to the Town's tax levy. However, even with that reduction, general fund balance would have averaged 236 percent of expenditures over these years.

## Recommendations

The Board should:

1. Determine a reasonable and acceptable level for fund balances for all Town funds. Adopt a fund balance policy that reflects these levels and long-term financial and capital plans that specify the Town's objectives and goals for using accumulated funds.
2. Use general surplus funds as a financing source for:
  - Funding one-time expenditures;
  - Funding needed reserves; and
  - Reducing real property taxes.
3. Adopt budget estimates that reflect realistic operating needs based on historical or other known trends.
4. Consider returning the Town's share of sales taxes to the County to reduce Town residents' real property tax burden.

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<sup>3</sup> NYS Tax Law 1262(c)



## **APPENDIX A**

### **RESPONSE FROM TOWN OFFICIALS**

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

# Town of Carlisle

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Town Supervisor  
Larry R. Bradt

P.O. Box 119  
Carlisle, NY 12031

August 24, 2017

Gabriel F. Deyo  
Deputy Comptroller  
Division of Local Government and School Accountability  
110 State Street  
Albany, NY 12236

**Attention:** [REDACTED]

RE: Response to Town of Carlisle's Audit Draft Report

As requested we offer the following comments on your draft report dated August 2017.

We were notified by your office that a planned audit would occur for the Town of Carlisle. An entrance interview took place at our town hall located at 541 Crommie Road with two state auditors and the town supervisor. The audit process within the town ended with an exit interview with the same parties. All documents and data including files, records and financial items were submitted to the auditors at their request. They also interviewed town board members, our town clerk, highway superintendent, justice, town accountant and town supervisor.

The mission of the audit per your OSC manual is to enable and encourage local governments to maintain or improve fiscal health by increasing efficiency and effectiveness, managing costs, improving service deliveries, and accounting for and protecting assets. Since no recommended improvements are mentioned in your report regarding these areas, its positive news from your report that we are doing all of these things effectively on the local level.

The audit report indicates in your opinion the town's fund balance is too high and should be reduced by various measures, we respectively request to comment on those findings. Our town is financially sound because of a great team in place from the top down to all employees who strive to keep it that way. We have frugal town board members who monitor every taxpayer penny that is spent. That is one reason why we have a fund balance because money is not wasted just because we have a fund balance. Yes we are conservative in estimating revenues from mortgage and sales tax; however, surplus monies are given back in the following year's budget. To prove that point, the towns general fund balance at the end of 2011 was \$735,660 and at the end of 2016 was \$623,043. Our fund balance is not increasing and \$140,900 of unreserved funds was appropriated in our 2017 budget. This year a new highway truck will be purchased due to an unfortunate accident that happened during the winter which totaled our old truck. The replacement vehicle will cost over \$200,000 and we will also spend \$50,000 to complete our construction project at the highway garage parking lot with an asphalt top coat. Another unexpected cost of \$4,000 to repair/replace our fire alarm control panel located at the town highway garage. We plan to transfer some fund balance to our highway equipment reserve fund, address other maintenance issues and continue performing necessary preventive maintenance needs such as seal coating existing parking lots to preserve them. As you can see, fund balance is

See  
Note 1  
Page 10

necessary to cover unanticipated and emergency costs and keeping under the annual state imposed tax cap. The Real Property tax cap was enacted by NYS in 2011 which established a limit on the annual growth of property taxes a local government may levy to either 2 percent or the rate of inflation whichever is less. For 2016 the cap was 0.73 % and much less for the 2017 town budget. The town board has never voted to exceed the tax cap even though it was much less than 2 percent for many years since the law was adopted in 2011. Given the above items, we feel the fund balance and tax levy are appropriate

*The report suggests the town should consider returning their portion of sales tax money to the county. I confirmed with the Schoharie County Treasurer that all towns and villages within Schoharie County accept their portion of sales tax revenues. We believe it would be unfair to Carlisle residents to not accept sales tax revenues when all other towns in Schoharie County do.*

If NYS is serious in their efforts to reduce local tax burden on property owners, they need to step up to the plate and start funding their own imposed mandates on counties and towns. The 2016 Schoharie County budget included NYS unfunded mandates totaling \$16,099,822 or 77.74% of the tax levy. The counties in this state need mandate relief from the state ASAP. Counties can not continue to provide programs and stay under the tax cap without mandate relief from the state.

In conclusion, OSC auditors were a pleasure to work with through out the process. We believe the audit was performed in a professional manner and we gained beneficial knowledge working with your staff. We are grateful for your assistance and cooperation while performing the town audit.

If you have any questions, please contact me at 518-234-7080.

Sincerely,

Larry R. Bradt  
Carlisle Town Supervisor

Cc; Stacy Bruyette, Town Clerk  
Town Board

## **APPENDIX B**

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

#### Note 1

Town officials budgeted to use surplus funds from 2014 through 2016 to finance general fund operations. However, because the Town experienced operating surpluses, the budgeted fund balance was not actually used.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed Town officials, reviewed Board minutes and PILOT agreements to gain an understanding of the budget development process and gather background information.
- We reviewed the general fund balances from 1995 through 2016 to determine whether fund balance levels were reasonable.
- We compared the general fund 2014 through 2016 budgeted revenues and appropriations to the actual revenues and expenditures. We also compared the results of operation to the budgeted appropriated fund balances to determine whether the Board adopted reasonable budgets.
- We traveled various Town roads, and toured Town buildings for an overview assessment of the Town's infrastructure.
- We interviewed Town officials and reviewed Board minutes to determine whether fund balance policies, long-term financial and capital plans or replacement schedules were in place. We inquired about any recent capital projects, large equipment purchases or significant changes within the Town operations that could affect fund balance levels.
- We reviewed the Town's tax levies for 2014 through 2017 to identify trends and determine whether the levies were within the tax levy limits.

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.

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