



Town of Forestport Financial Management

Report of Examination

Period Covered:

January 1, 2012 — December 31, 2012

2013M-184



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 2013

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 Forestport, entitled Financial Management. 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 Town of Forestport (Town) is located in Oneida County and has approximately 1,500 residents. The Town Board (Board) is composed of four elected council members and an elected Town Supervisor (Supervisor). The Town offers a variety of services to its residents, including street maintenance and improvements, snow removal, parks and recreation, water and sewer services, and general government support. The Town's 2012 operating expenditures totaled \$867,387 for the general fund, \$1,035,144 for the highway fund, \$79,388 for the water fund and \$44,158 for the sewer fund (only one district is included in each of the water and sewer funds). These expenditures were funded with revenues from local taxes, State aid, and charges for services.

The Board is responsible for overseeing the Town's operations and finances and overall Town management. The Supervisor serves as the Town's chief executive and chief fiscal officer and is responsible for overseeing the Town's financial management. As budget officer, the Supervisor is also responsible for preparing preliminary budgets and analyzing fund balance.

Objective

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

- Does the Board adopt realistic budgets that are structurally balanced, routinely monitor financial operations and take appropriate action to maintain the Town's financial stability?

Scope and Methodology

We examined the financial condition of the Town's general and highway funds, and water and sewer districts for the period January 1, 2012 to December 31, 2012. We expanded the scope of our audit back to January 1, 2008 to review financial 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 is 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 Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our findings and indicated they have begun to implement 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 Town Clerk's office.

Financial Management

The Board is responsible for making sound financial decisions that are in the best interest of the Town and the taxpayers. This responsibility requires the Board to adopt structurally balanced budgets that provide sufficient recurring revenues to finance recurring expenditures and maintain financial stability. A basic component of local government budgeting is the prudent use of fund balance, which is the difference between revenues and expenditures accumulated over time. To address any accumulated excess fund balance, the Board should adopt policies and procedures to govern and monitor fund balance and use surplus fund balance as a funding source, when appropriate. If these practices are followed, only the necessary amount of real property taxes will be raised. In the event a local government experiences fiscal stress, good financial management practices dictate that it develop a plan to address it on both a short-term and long-term basis.

The Board needs to improve its budgeting practices and enhance its oversight of the Town's finances. The Board has not adopted realistic budgets for the general fund primarily because it repeatedly underestimated revenues. As a result, at the end of 2012, fund balance in the general fund had increased to \$741,000 or 67 percent of the ensuing year's appropriations. In addition, portions of the fund balance set aside as a funding source for subsequent years' budgets were not used as planned. We also found that the water and sewer districts were not properly funded, resulting in the general fund having to make interfund loans to these districts to support their operations. Finally, the Board did not have a policy to govern the level of fund balance that should be maintained and has not adopted long-term financial plans. Without multiyear operational and capital plans, the Board's ability to manage the Town's fiscal stability is diminished.

General Fund

In preparing the budget, the Board is responsible for estimating what the Town will receive and expend using the most reliable information available. It is important that the Board adopts budgets that include realistic estimates of revenues and expenditures to sufficiently fund operations, and monitors the budget against operating results during the year. Town officials can legally set aside, or reserve, portions of fund balance to finance future costs for a specified purpose, or can

designate the unexpended surplus¹ portion of fund balance to either help finance the next year's budget or be retained for future use.

Unexpended surplus funds are the available portion of fund balance that can be used to manage unexpected costs or unanticipated shortfalls in estimated revenues. Municipalities should carry a reasonable amount of unexpended surplus funds from one year to the next. Each municipality needs to assess what is reasonable for its particular situation, considering various factors such as timing of receipts and disbursements, volatility of revenues and expenditures, contingency appropriations, and reserves that have been established for various purposes. The Board can use this surplus fund balance as a budget funding source, when appropriate. The Board should adopt a policy that addresses the level of unexpended surplus funds that should be maintained. This policy can be used when preparing the budget to help ensure that unexpended surplus funds are consistently maintained at an adequate level. If the Board follows these practices, it will raise only the necessary amounts of real property taxes.

Even though the Board routinely monitored financial reports showing the results of operations, it did not adopt realistic general fund budgets. As a result, significant surplus funds are maintained in the general fund, and the Board did not use surplus funds as a funding source as planned in the budgets. In addition, the Board has not developed a policy related to maintaining a reasonable level of fund balance.

Although the Board adopted budgets that were realistic and supported for expenditures, revenues were consistently and significantly underestimated. We compared the Town's budgeted revenues with actual results for fiscal years 2008 through 2012 and found that the Town underestimated revenues by a total of \$1.2 million, or 41 percent of the total estimated revenues for the period. The largest variance was for sales tax, which was underestimated by an average of \$225,000 each year. The Supervisor told us that he budgets conservatively for sales tax revenues because he is concerned that these revenues are unpredictable. However, sales tax budget estimates for 2011 and 2012 were \$460,000 each year, even though the Town has received in excess of \$600,000 every year since 2008.

¹ The Governmental 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).

Table 1: Results of Operations					
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Beginning Fund Balance	\$445,553	\$792,177	\$851,314	\$869,175	\$836,997
Revenues	\$1,031,587	\$734,101	\$746,968	\$789,342	\$770,007
Expenditures	\$681,491	\$679,658	\$720,807	\$822,711	\$867,387
Operating Surplus/(Deficit)	\$350,096	\$54,443	\$26,161	(\$33,369)	(\$97,380)
Prior Period Adjustment – Increase/(Decrease) in Fund Equity	(\$3,472)	\$4,694	(\$8,300)	\$1,191	\$975
Year-End Fund Balance	\$792,177	\$851,314	\$869,175	\$836,997	\$740,592
Less: Unexpended Surplus Appropriated for the Next Fiscal Year	\$281,213	\$287,501	\$402,794	\$516,314	\$536,489
Less: Restricted Fund Balance	\$6,527	\$11,300	\$3,000	\$0	\$0
Unexpended Surplus Fund Balance at Year End	\$504,437	\$552,513	\$463,381	\$320,683	\$204,103

For the five fiscal years 2008 through 2012, the Board appropriated unexpended surplus funds totaling \$2,024,311 to fund operations, which, had budgets been more realistic, would have reduced year-end unexpended surplus funds to more reasonable levels. However, the Town realized operating surpluses in the first three years and operating deficits in the remaining two years that were far below the planned deficit, as shown in Table 2. Therefore, even though the Town appropriated fund balance, it was not used, and the surplus fund balance was not reduced by the amount the Town had planned.

Table 2: Results of Operations/Use of Surplus Funds			
Fiscal Year	Operating Surplus/ (Deficit)	Appropriated Surplus Funds in the Budget	Appropriated Surplus Funds Actually Used
2008	\$350,096	\$281,213	\$0
2009	\$54,443	\$287,501	\$0
2010	\$26,161	\$402,794	\$0
2011	(\$33,369)	\$516,314	\$33,369
2012	(\$97,380)	\$536,489	\$97,380

While the Town's unexpended surplus funds have decreased over the last two years, the Town continues to maintain a high level of fund balance. Cash balances at the end of the 2012 fiscal year were sufficient to cover 9.7 months of average expenditures without any additional revenues collected.

The Board adopted realistic highway fund budgets during this same time period. While the Town did not levy general fund property

taxes from 2009 to 2012,² it did levy highway fund property taxes of just over \$1.3 million during this period. Because the general fund and highway fund have the same tax base, the Board could have transferred portions of the unexpended surplus funds from the general fund to reduce the property taxes levied in the highway fund. Alternatively, because sales tax revenues were allocated to both the general fund and the highway fund, the Board could have allocated a greater portion of sales tax revenues to the highway fund to reduce the taxes levied in the highway fund.

Water and Sewer Districts

To properly fund water and sewer operations, the Board should determine the annual cost of operations and maintenance for each district, and the anticipated future repairs and improvements. Based on that information, the Board should revise, if necessary, water and sewer user rates to generate sufficient revenues to pay the total costs necessary to properly operate and maintain the facilities and service lines.

The water and sewer districts have had a history of deficit fund balances which originated prior to 2008. At the end of 2010, the Town reported deficit fund balances of about \$21,000 in the water district and \$23,900 in the sewer district. These deficits occurred because the user rates did not generate sufficient revenues to cover operating costs. As a result, the water and sewer districts relied on interfund loans from the general fund over the years to enable them to cover expenses. From fiscal years 2008 through 2012, outstanding loans at year-end averaged \$27,927 in the water district and \$24,740 in the sewer district. The Town can move resources from one fund to another in the form of a loan, with certain restrictions. An interfund loan must be repaid by the close of the fiscal year in which it was made and loans between funds that have different tax bases have to be repaid with interest. Although the general fund and the water and sewer districts have different tax bases, the Town has not paid interest on the loans.

In an effort to eliminate the deficits in these districts and the need for loans from the general fund, the Board increased user rates for both water and sewer service in 2011. In addition, the Board revised rules and regulations for the water district and passed a local law to terminate water service for non-payment and assess a fee to reconnect service. Both districts generated operating surpluses in 2011 and 2012 totaling \$39,494 in the water district and \$4,376 in the sewer district. By the end of 2012, the water district had a fund balance of \$18,500. While the sewer district's financial position has improved, it still had a deficit fund balance of \$19,500 at the end of 2012. The water district still had an outstanding loan balance payable to the

² In 2008, the Town collected \$167,000 in general fund real property taxes.

general fund of \$18,534, and the sewer district still owed the general fund \$19,778 at the end of 2012. The Supervisor told us that the Town planned to repay these loans during 2013.

Multiyear Financial Plan

An important Board oversight responsibility is to plan for the future by setting adequate long-term priorities and goals. To address this responsibility, it is important to develop comprehensive, multiyear financial and capital plans to estimate the future costs of ongoing services and capital needs. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period. Planning on a multiyear basis allows officials to identify developing revenue and expenditure trends and set long-term priorities and goals. It also allows officials to assess the impact and merits of alternative approaches to financial issues, such as the use of fund balance to finance operations. It is essential that long-term financial plans are monitored and updated on an ongoing basis to ensure that decisions are guided by the most accurate information available.

While Town officials told us that they discuss long-term planning, the Board did not develop a formal or comprehensive long-term capital or operational plan. Without multiyear operational and capital plans, the Board's ability to manage the Town's fiscal stability is diminished.

Recommendations

1. The Board should adopt a fund balance policy governing the level of unexpended surplus funds to be maintained in the Town's operating funds.
2. Town officials should develop and adopt budgets that include realistic estimates for revenues and expenditures and fund balance available for appropriation.
3. The Board should use the unexpended surplus fund balance in the general fund in a manner that benefits taxpayers. Such uses could include, but are not limited to:
 - Increasing necessary reserves
 - Paying off debt
 - Financing one-time expenses
 - Reducing property taxes.
4. The Board should continue to monitor the sewer district's financial position and take additional action as necessary to eliminate the deficit fund balance.

5. The Board should ensure that interfund loans between funds with different tax bases are paid with interest to the respective funds. All interfund loans should be repaid by the close of the fiscal year in which they are made.
6. The Board should develop long-term financial and capital plans that project operating and capital needs and financing sources for a three- to five-year period. These plans should be monitored and updated on a regular basis

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

TOWN OF FORESTPORT
FORESTPORT, NEW YORK - 13338



August 26, 2013

Office of the State Comptroller
State Office Building, Room 409
333 East Washington Street
Syracuse, NY 13202

Response to the 2013M-184 Audit

The Town of Forestport Town Board is going to keep their procedures for filling out the budget on the conservative side do to the uncertain calculation of the sales tax. We have been increasing the budget amounts of sales tax in the General and Highway fund regularly.

The Town likes to have a surplus of money for emergencies to fix Town buildings, equipment and disasters like what has happened in the last few years with hurricanes, tornadoes, flooding and storms going on. We do not want to be in the position that other Towns, Villages and counties have found themselves in after a disaster.

Please remember that if the money is put into the General fund, then the Highway can borrow the money, if the money is in Highway and the General needs money they can't borrow.

I am very pleased that no discrepancies where found in our accounts. We have good controls of the money in place for finances and we do an internal Audit of accounts yearly as Town Law says.

The Town Board receives these reports (Operating statement, Trail balance, Balance sheet & Journal entries) at every Town Board Meeting.

Please note that the Town Clerk is given a check and balance and is doing Bank reconciliations.

We will continue to work with the State Controller to keep thing in check & balance.

Sincerely,

William Hasenauer
Town Supervisor & Budget Officer

WH/dc

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of this audit was to examine the Town's financial management of its general and highway funds, and water and sewer districts for the period January 1, 2012 to December 31, 2012. We expanded our scope period back to January 1, 2008 to review financial trends. To accomplish the objectives, we performed the following audit procedures:

- We interviewed Town officials and employees to gain an understanding of the procedures related to financial operations.
- We reviewed the Town's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.
- We reviewed the minutes of the Board meetings during our audit period for evidence of budgetary and fiscal control.
- We interviewed the Supervisor and Board members to obtain an understanding of the budget development and monitoring process.
- We reviewed the Town's adopted budgets for 2008 through 2012 and compared them to the results of operations for the general and highway funds, and water and sewer districts to determine if the Town's budgets were reasonable. We also reviewed the Town's 2013 budget for reasonableness.
- We performed an analysis of the Town's fund balance for the last five completed years using the Town's Annual Update Document submitted to the Office of the State Comptroller and the Board adopted budgets.
- We analyzed revenue and expenditure trends for the operating funds for the years 2008 through 2012.
- We conducted various analyses of the financial records to gain a full understanding of the Town's financial condition and to identify trends.
- We interviewed Town officials to determine the reason for interfund loans to the water and sewer districts and if a long-term planning process was in place for operational and capital needs.

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.

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