



# Town of Summerhill

## Fund Balance and Budget Monitoring

### Report of Examination

Period Covered:

January 1, 2009 — December 31, 2012

2013M-27



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**

May 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 Summerhill, entitled Fund Balance and Budget Monitoring. 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 Summerhill (Town) is located in Cayuga County and has approximately 1,200 residents. The Town was the birthplace of Millard Fillmore, the first elected Comptroller of the State of New York who later became the 13th President of the United States. The Town is governed by the Town Board (Board), which comprises four elected members and an elected Town Supervisor (Supervisor). The Board is the legislative body responsible for the overall management of the Town, including oversight of the Town's operations and finances and adopting and monitoring the budget.

The Supervisor is the chief fiscal officer and is responsible for maintaining a record of all receipts, expenditures, and account balances, and for providing the Board with timely, accurate, and useful financial information. The Supervisor oversees a bookkeeper who carries out the Supervisor's responsibilities of maintaining the accounting records and providing financial reports to the Supervisor and the Board. The Supervisor, as budget officer, is responsible for compiling the initial budget estimates and producing the tentative budget, subject to the Board's approval. The entire Board is responsible for adopting and monitoring the budget and ensuring the Town's sound financial position.

The Town provides various services to its residents including general administration, road maintenance, snowplowing, and fire protection. For the 2012 fiscal year, the Town's budgeted appropriations were approximately \$743,000, funded primarily with real property taxes, sales tax, and State aid. The Town's main operating funds include the general fund and the highway fund. Expenditures from those funds in the 2012 fiscal year totaled approximately \$642,150. Expenditures from the Town's fire protection fund in the 2012 fiscal year totaled approximately \$26,600.

## Objective

The objective of our audit was to review the Town's financial management and budgeting practices, and its resultant financial condition. Our audit addressed the following related question:

- Is the Board providing adequate oversight and management of the Town's budget?

## Scope and Methodology

We examined the fund balance and budget monitoring of the Town for the period January 1, 2009, to December 31, 2012. To analyze the Town's historical appropriation of fund balance, we extended the audit period back to fiscal year 2008.

**Comments of  
Local Officials and  
Corrective Action**

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.

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 agreed with our recommendations and indicated they planned to initiate corrective action. Appendix B includes our comment on the issue raised in the Town's response letter.

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.

## Fund Balance and Budget Monitoring

The Board is responsible for making sound financial decisions that are in the best interest of the Town and of the taxpayers who fund its operations. This responsibility requires Board members to balance the level of services desired and expected by Town residents with the ability and willingness of the residents to pay for such services.

It is essential that the Board adopt structurally balanced budgets for all of its operating funds to provide recurring revenues to finance recurring expenditures. Estimating fund balance is an integral part of the budget process. Fund balance represents moneys remaining from prior fiscal years that can be appropriated to finance the next year's budget. After the Board makes budgetary appropriations and sets moneys aside for any legally authorized reserves, the Town may retain a portion of fund balance as a financial cushion for unforeseen expenses. The Board is also responsible for monitoring expenditures against budgeted amounts to ensure that appropriations are not over-expended and that deficits do not occur.

The Board did not adopt structurally balanced budgets or monitor the budget during the year. Generally, the Board's estimates of surplus fund balance to be appropriated in the budgets exceeded the amounts actually available. As a result, the general fund balance declined by \$82,000 from 2008 to 2012. Consequently, the general fund had to borrow money from the highway fund in 2012 so it could pay its obligations.

In addition, four of the five Board members did not receive budget status reports during the year. As a result, budget amendments were not made until the last Board meeting of the year, after the over-expenditures had already occurred. The general fund ended 2012 with a cash balance of \$15,630. Although the Board raised the tax levy by 30 percent for 2013, the Board still needs to closely monitor expenditures to ensure the Town does not end up with a deficit.

### Fund Balance

Budgets are meant to balance revenues and expenditures so that local governments can provide needed services with the resources that are available. The Board is responsible for adopting a policy to determine the appropriate amounts of fund balance to retain as a financial

safeguard so that the Town has adequate unexpended surplus funds<sup>1</sup> for the current year's operations. The Board should also develop a reasonable estimate of the fund balance that will be available at the end of the current fiscal year, and the proper amount of fund balance to be appropriated as revenue to offset the ensuing year's tax levy. Multi-year financial planning is a critical tool for improving the accuracy and efficiency of the annual budgeting process, identifying revenue and expenditure trends, and avoiding large fluctuations in tax rates. Long-term planning also helps the Board assess alternative approaches to financial issues, such as accumulating money in reserve funds or using surplus funds to finance annual operations.

The Board did not adopt a policy, or ensure that procedures were in place, to govern the level of fund balance to be maintained. Furthermore, the Supervisor did not establish a system to reasonably estimate the amount of fund balance that will be available at year end.

We compared the amount of fund balance appropriated in the Town's budget to the amount actually available as reported in the Town's annual financial reports to the Office of the State Comptroller, as follows:

| <b>Table 1: General Fund</b>  |                |                |                |                |                |
|---|----------------|----------------|----------------|----------------|----------------|
|   | <b>FY 2008</b> | <b>FY 2009</b> | <b>FY 2010</b> | <b>FY 2011</b> | <b>FY 2012</b> |
| Beginning Fund Balance  | \$98,475       | \$82,225       | \$58,890       | \$30,812       | \$31,321       |
| Actual Revenues   | \$184,033      | \$163,959      | \$206,981      | \$204,921      | \$201,885      |
| Actual Expenditures   | \$200,283      | \$187,294      | \$235,059      | \$204,412      | \$217,376      |
| Operating Surplus/(Deficit)   | (\$16,250)     | (\$23,335)     | (\$28,078)     | \$509          | (\$15,491)     |
| Year-End Fund Balance   | \$82,225       | \$58,890       | \$30,812       | \$ 31,321      | \$15,830       |
| Less: Reserved Fund Balance   | \$0            | \$0            | \$0            | \$0            | \$0            |
| Less: Appropriated Fund Balance   | \$71,363       | \$70,300       | \$109,033      | \$87,760       | \$0            |
| Unexpended Surplus Funds <sup>a</sup>   | \$10,862       | (\$11,410)     | (\$78,221)     | (\$56,439)     | \$15,830       |
| <sup>a</sup> Prior to 2011, these funds were referred to as "unreserved, unappropriated." |                |                |                |                |                |

<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 2: Highway Fund</b>  |                |                |                |                |                |
|---|----------------|----------------|----------------|----------------|----------------|
|   | <b>FY 2008</b> | <b>FY 2009</b> | <b>FY 2010</b> | <b>FY 2011</b> | <b>FY 2012</b> |
| Beginning Fund Balance  | \$30,557       | \$33,434       | \$48,018       | \$18,318       | \$80,246       |
| Actual Revenues   | \$468,527      | \$465,615      | \$477,798      | \$480,497      | \$443,058      |
| Actual Expenditures   | \$465,650      | \$451,031      | \$507,498      | \$418,569      | \$424,758      |
| Operating Surplus/(Deficit)   | \$2,877        | \$14,584       | (\$29,700)     | \$61,928       | \$18,300       |
| Year-End Fund Balance   | \$33,434       | \$48,018       | \$18,318       | \$80,246       | \$98,546       |
| Less: Reserved Fund Balance   | \$0            | \$0            | \$0            | \$0            | \$40,014       |
| Less: Appropriated Fund Balance   | \$1,000        | \$1,000        | \$4,224        | \$43,654       | \$15,052       |
| Unexpended Surplus Funds <sup>a</sup>   | \$32,434       | \$47,018       | \$14,094       | \$36,592       | \$43,480       |
| <sup>a</sup> Prior to 2011, these funds were referred to as “unreserved, unappropriated.” |                |                |                |                |                |

As shown in Table 1, the Board appropriated more general fund balance than was actually available in 2009, 2010 and 2011. The failure to estimate the amount of fund balance at year-end also caused a significant fund balance decline by over \$82,000<sup>2</sup> from 2008 to 2012. The excessive appropriation of fund balance in 2009, 2010 and 2011 left the fund with a declining cash balance for cash flow or unexpected occurrences in 2012. As discussed in the following section, entitled “Budget Monitoring,” the general fund had insufficient funds to pay current obligations through April 2012, which resulted in the general fund having to borrow money from the highway fund.

As shown in Table 2, the highway fund balance increased from 2008 to 2012. Despite these increases in fund balance, they were still below the recommended level.<sup>3</sup> In the 2013 budget, the Board appropriated fund balance of \$15,052 in the highway fund, which leaves an unexpended surplus balance of about 10 percent of expenditures, which is still below the Government Finance Officers Association (GFOA) recommended balance.

Because the Board consistently adopted budgets that appropriated more fund balance than was actually available, the Town’s adopted budgets required only minimal tax levies. While a reduced tax levy benefits taxpayers in the short term, the fund balance should not be depleted to the point that there is insufficient cash available for paying bills or managing unforeseen events. Because the tax levies were no longer sustainable without significant budget cuts, the Board enacted a local law in 2012 to override the 2 percent property tax increase

<sup>2</sup> The general fund declined by \$82,645 and the highway fund increased by \$67,989 less the reserved fund balance of \$40,014 = \$27,975.

<sup>3</sup> The Government Finance Officers Association (GFOA) recommends that local governments, at a minimum, maintain unrestricted fund balance of no less than two months of regular expenditures. See related comment entitled Budget Monitoring.



limit under the new tax cap law,<sup>4</sup> thereby allowing the Town's 2013 budget to exceed the tax cap by \$97,354.<sup>5</sup> As a result, the tax levy increased by approximately 30 percent.

The new tax cap law will be significant for years to come because it limits the amount by which the levy can be increased unless the Board adopts a local law each year that it wants to override the tax cap. If the Board had developed a multi-year financial plan to address the weakening fiscal condition of the general fund, it could have smoothed the tax rate increases incurred by taxpayers by systematically using available fund balance over time.

With the depletion of the Town's general fund balance and its year-end financial cushion, the Board will need to closely monitor expenditures for 2013 to ensure the Town does not end up with a deficit. Town officials must closely monitor the financial status of these funds and take immediate corrective action in the event of their decline.

## **Budget Monitoring**

The Board is responsible for closely monitoring the financial condition of the Town's operating funds. This includes reviewing monthly budget status reports to determine if there are sufficient appropriations for the Town's expenditures. Any time there are insufficient appropriations, the Board should decide whether the expenditures are necessary and, if so, by resolution, amend the budget to provide sufficient appropriations. The GFOA recommends that local governments, at a minimum, maintain unrestricted fund balance of no less than two months of regular expenditures.<sup>6</sup>

The Supervisor received budget status reports from the bookkeeper, each month, which showed budgeted-versus-actual revenues and expenditures. However, the other four Board members did not receive these reports during the fiscal year, and thus lacked the information necessary to monitor the budgets against operations and make adjustments. Budget status reports are vital Board management tools, and the Board remains in a poor position to manage financial operations until it receives them. As a result, generally, budget amendments to the general and highway fund budgets were not made

<sup>4</sup> In 2011, the State Legislature enacted a law establishing a property tax levy limit, generally referred to as the property tax cap. Under this legislation, the property tax levied annually by local governments generally cannot increase more than 2 percent, or the rate of inflation, whichever is lower, with some exceptions. Local governments are permitted to override the levy limit if certain actions are taken.

<sup>5</sup> The Town's total tax levy for 2012 was \$380,353, and is budgeted to be \$492,705 for 2013. The tax cap levy limit for 2013 should have been \$395,351. Because of the local law, the Board was able to increase the tax levy to \$492,705, which exceeded the cap by \$97,354.

<sup>6</sup> GFOA of the US & Canada, Best Practice: "Appropriate Level of Unrestricted Fund Balance in the General Fund (2002 and 2009)"

until the last Board meeting of the year, after over-expenditures had already occurred. Allowing the budget to be over-expended until year end and then amending it after the fact defeats the financial control that the budget is intended to provide.

The failure to closely monitor the budget has left the Board unable to assess and address the true financial position of the Town's two main funds, which has allowed the general fund to approach fiscal stress. The general fund ended 2011 and began 2012 with a cash balance of \$31,121. Because the Board appropriated \$87,760 in fund balance for the 2012 budget, the general fund began 2012 with a budgetary deficit, just as it had in 2010 and 2011. Because first quarter expenditures exceeded first quarter revenues by \$33,048, this cash balance was not adequate as a financial cushion. As a result, the Board had to pass a resolution to loan \$2,000 from the highway fund to the general fund so the general fund could pay its obligations. Even after this loan, the general fund was left with a cash balance of only \$73 on March 31, 2012. As a result, the general fund needed to borrow an additional \$18,000 from the highway fund in April 2012 to pay that month's bills.

The general fund ended the year with a cash balance of \$15,630, which is significantly less than the GFOA recommended minimum cushion equivalent of two month's expenditures. The Board will need to closely monitor the general fund's expenditures for 2013 to ensure the Town does not end up with a deficit. Town officials must closely monitor the financial status of these funds and take immediate corrective action in the event of their decline.

## **Recommendations**

1. The Board should establish a policy and develop procedures for preparing realistic and structurally balanced budgets, using actual financial results from prior years and other relevant and available data.
2. The Board should develop a multi-year financial plan to establish clear goals and objectives for funding the Town's long-term operating and capital needs.
3. The Board should review budget-to-actual reports on a monthly basis and use them to monitor current-year results against budget estimates throughout the year. The Board should make appropriate budget adjustments prior to accounts becoming over expended.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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

**Charles E. Ripley**  
*Supervisor*

**Carol I. Chase**  
*Town Clerk*

**Sherry Davenport**  
*Town Justice*

Tel. (315) 497-3496  
Fax (315) 497-3497

**John Kirk**  
*Highway Superintendent*  
Tel. (315) 496-2227  
Fax (315) 496-2080

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**Board Members**

Amie Prince

Daniel Ripley

Michael Passalugo

Duane Reynolds

**Linda Wright**

*Assessor*

**Michael Bidwell**

*Code Enforcement Officer*

**Town Website**

[www.co.cayuga.ny.us/summerhill](http://www.co.cayuga.ny.us/summerhill)

April 16, 2013

To Whom It May Concern:

The Town Supervisor and Deputy Town supervisor both agree with the findings of the audit preformed by the State Comptrollers Office.

In addition we request that the following statement be included in the findings. "One of the reasons for the drop in the amount for the year end fund balance the last four years was due in part to the additional principal payments made on behalf of the Town to pay off in advance two of the highway dump trucks, purchase of a payloader and a Ford pick up truck. Thereby saving the interest pertaining to the loans, for which we are now debt free."

See  
Note 1  
Page 12

Charles E. Ripley

Summerhill Town Supervisor

## **APPENDIX B**

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

#### Note 1

While the intent of the accelerated principal payments was to save on interest payments, the use of Town moneys for this purpose, without providing additional funding in the budget, contributed to the drop in fund balance below the Government Finance Officers Association recommended minimum cushion of two months' expenditures.

## **APPENDIX C**

### **AUDIT METHODOLOGY AND STANDARDS**

To accomplish our objective, we interviewed Town officials and employees, tested records, and examined documents for the period January 1, 2009 through December 31, 2012. To analyze the Town's historical appropriation of fund balance, we extended the audit period back to fiscal year 2008.

Our examination included the following:

- We interviewed Town officials and employees to gain an understanding of Town operations.
- We reviewed Town policies and procedures.
- We obtained an understanding of the Town's internal control environment and specific controls that are significant to the Town's budget process.
- We analyzed revenue and expenditure trends and budget-to-actual comparisons for the operating funds for the years 2009 through 2012.
- We reviewed and analyzed reported fund balance levels in comparison to amounts appropriated in adopted budgets.
- We reviewed Annual Update Document (AUD) filings and extensions as submitted to the Office of the State Comptroller to determine if they were timely, accurate, and complete. We also analyzed AUDs for fund balance reasonableness.
- We reviewed Board minutes from January 2008 through November 2012 for actions relevant to budgeting and financial condition.
- We reviewed the preliminary 2012 operating results and 2013 adopted budgets to identify recurring trends or recent changes in budgeting practices.

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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**AND SCHOOL ACCOUNTABILITY**

Andrew A. SanFilippo, Executive Deputy Comptroller  
Nathalie N. Carey, Assistant Comptroller

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