

Town of Caneadea

Fund Balance Management

MAY 2021



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Town of Caneadea

Audit Objective

Determine whether the Town Board (Board) effectively managed fund balances.

Key Findings

The Board did not effectively manage fund balance and spent down fund balance by \$427,000 or 71 percent. The Board:

- Appropriated fund balance the Town did not have, which resulted in deficit, or negative fund balances, in the general fund.
- Did not develop and adopt a comprehensive written:
 - Fund Balance Policy
 - Multiyear Financial Plan or
 - Capital Plans.

As a result, the Board's ability to know what effect financial decisions would have on future fund balance levels was diminished.

Key Recommendations

- Develop and adopt budgets which align recurring revenues with recurring expenditures, and include realistic estimates of appropriated fund balance amounts.
- Develop and adopt a comprehensive written fund balance policy and written multiyear financial and capital plans.

Town officials generally agreed with our recommendations and have initiated or indicated they planned to initiate corrective action. Appendix B includes our comment on an issue that was raised in the Town's response letter.

Background

The Town of Caneadea (Town), located in Allegany County, provides various services to its residents, including road maintenance, snow removal and fire protection.

The Town is governed by an elected Board composed of a Town Supervisor (Supervisor) and four Board members.

The Board is responsible for the general management and control of Town finances.

The Supervisor serves as the chief fiscal officer and is responsible for the Town's day-to-day operations.

Quick Facts

Population	2,500
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2020 Fund Appropriations

General	\$297,000
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Highway	\$708,000
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Sewer	\$412,000
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Water	\$433,000
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Audit Period

January 1, 2015 – September 24, 2020. We extended the scope of our audit to March 26, 2021 in order to inquire with Town officials about the status of the 2020 annual financial report.

Fund Balance Management

Fund balance is the cumulative differences between revenues and expenditures for a particular account or fund. Effective fund balance management may be defined as a town's ability to adequately plan for, monitor and use fund balance as necessary to help ensure continuity of services provided. Fund balance is a key component for positive fiscal health and planning for future events.

The town board is responsible for the financial planning and management necessary to maintain adequate fund balance levels and the town's fiscal health. This can be accomplished, in part, by adopting a written fund balance policy, accurately estimating fund balance needed for the annual budget, and planning for the future with written multiyear financial and capital plans.

Why is a Written Fund Balance Policy Important?

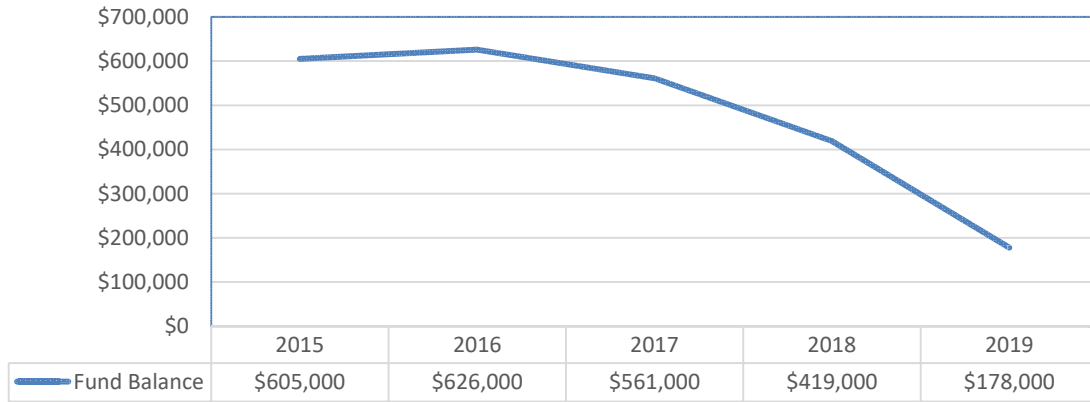
To help town officials manage financial operations and help ensure continued funding for town operations, the board should adopt a written policy establishing an appropriate level of fund balance to be maintained. Too much fund balance may indicate that property taxes are too high. Too little fund balance may indicate possible fiscal stress. The amount of fund balance available should be continually monitored on an ongoing basis and declining levels of fund balance should be addressed to avoid potential cash flow concerns that can impact the town's ability to pay current obligations in a timely manner. Without a written fund balance policy, the board's ability to effectively manage the town's finances and adequately plan for future needs is diminished.

The Board Did Not Adopt a Written Fund Balance Policy

The Board has not developed and adopted a written fund balance policy to help guide and help ensure its effective fund balance management. As a result, minimum fund balance levels for the four main operating funds (general, highway, water and sewer) were not established. These fund balances decreased by 71 percent or \$427,000 during our audit period.

FIGURE 1

Total Available Fund Balance



The general fund balance declined by \$133,000 or 193 percent since 2015, from a surplus fund balance totaling \$69,000 to a deficit of \$64,000 as of December 31, 2019. This ultimately resulted in the general fund borrowing money from the water and sewer funds for cash flow and although allowed by Law,¹ has not yet been repaid. During this same period, the highway fund balance declined by \$113,000 (64 percent), the sewer fund balance declined by \$100,000 (54 percent) and the water fund balance declined \$81,000 (46 percent).

While Town officials acknowledged the importance of a fund balance policy, priority was not given to establishing one.

Why are Accurate Budget Estimates Important?

The annual operating budget is one of the most important documents a town board and officials collectively create and after a public hearing, is subsequently adopted by the board. It provides in detail the financial plans for the upcoming year and attempts to balance the level of services desired and expected from town residents with the ability and willingness of the residents to pay for such services. The accurate estimation of fund balance is an integral part of the budget process because the board is responsible for retaining enough fund balance at year-end to provide a reasonable financial cushion for unexpected events and cash flow in the next year. A board may appropriate a portion of fund balance as

¹ New York State General Municipal Law 9-a states that funds should be repaid as soon as possible or no later than the end of the fiscal year in which they were borrowed. In August 2020, the Governor signed into law a new provision that allows inter-fund advances made for COVID-19 pandemic-related expenses to be repaid by the end of the next succeeding fiscal year, rather than the end of the current fiscal year.

a financing source in the next year's budget to reduce the tax levy. However, the use of fund balance as a financing source should be done in a prudent manner as it reduces accumulated fund balance and is a one-time financing source. Optimally, recurring expenditures should be funded with recurring revenues.

Budget Estimates Were Not Accurate

The Board did not accurately estimate the amount of fund balance available to appropriate for budget purposes. As a result, the Board appropriated fund balance the Town did not have, which ultimately weakened the Town's financial condition and its ability to provide a financial cushion for unexpected events and cash flow. This occurred, according to the Supervisor, because the Board made a mistake in 2017 during the budget process by appropriating fund balance for the 2018 general fund budget the Town did not have.

As of December 31, 2017, the general fund operating deficit was approximately \$9,000 more (worse) than what the Board estimated in its 2017 budget. As a result, this depleted all of the remaining general fund balance (Figure 2). When the Board adopted the 2018 general fund budget, it based its budget on the estimate that an operating deficit of approximately the same amount (\$87,000) as in 2017 would occur and that appropriated fund balance could be used again to fill the gap. However, after 2017 year-end, the general fund did not have any available fund balance to appropriate. This further compounded the Town's budget problems leading to the deficit fund balance totaling \$64,000 as of December 31, 2019. Consequently, the general fund's deficit fund balance remains unresolved as of the end of our audit fieldwork (Figure 2).

Similarly in the highway fund, the Board adopted budgets for 2017, 2018 and 2019 appropriating between \$91,000 and \$167,000 of available fund balance, and in 2020 appropriated \$104,000 in fund balance that was not available. As expected the highway fund experienced operating deficits in 2018 and 2019 totaling approximately \$104,000 which substantially reduced the fund balance. We agree with the Supervisor's estimates that the highway fund will incur another operating deficit of approximately \$114,000 during 2020. If this occurs, because the highway fund balance has been depleted, the fund will be in a deficit fund balance position similar to the general fund.

...[T]he Board appropriated fund balance the Town did not have...

Figure 2: General and Highway Funds

General Fund	2017	2018	2019	2020
Budgeted Appropriations	\$240,000	\$254,000	\$285,000	\$297,000
Budgeted Revenues	160,000	167,000	285,000	297,000
Appropriated Fund Balance	80,000	87,000	0	0
Fund Balance Available	89,000	0	(42,000)	(64,000)
Operating Surplus/Deficit Reported	(\$89,000)	(\$42,000)	(\$15,000)	TBD
Highway Fund	2017	2018	2019	2020
Budgeted Appropriations	\$684,000	\$685,000	\$707,000	\$708,000
Budgeted Revenues	593,000	585,000	540,000	541,000
Appropriated Fund Balance	91,000	100,000	167,000	167,000
Fund Balance Available	137,000	206,000	187,000	63,000
Operating Surplus/Deficit Reported	\$69,000	(\$19,000)	(\$85,000)	TBD

The Board and Town officials will need to take appropriate action in the 2021 budget to continue to address fund balance levels in the general fund and what may be a deficit fund balance in the highway fund as a result of 2020 operations.

The annual budgets also included estimates which appropriated fund balance in both the water and sewer funds, which also declined, but at a lower percentage rate (as noted previously) than the general and highway funds. However, the 2020 water and sewer budgets adopted by the Board include appropriated fund balance estimates which consume the remaining available fund balance in both the water (\$94,100) and sewer (\$85,000) funds. Depending on the operating results at the end of the 2020 fiscal year (December 31, 2020), these funds may have significantly diminished fund balance.

As of March 26, 2021, the Town had not yet closed the 2020 fiscal year and official operating results were not known.

Why are Written Multiyear Financial and Capital Plans Important?

Multiyear written financial and capital plans are useful tools a town board and officials should develop and adopt to plan for and address the long-term financial operations and capital needs. Planning on a multiyear basis allows town officials to identify developing revenue and expenditure trends, set long-term priorities and goals and consider the impact current budgeting decisions, including the use of appropriated fund balance to finance operations, may have on future years. Without multiyear financial and capital plans, a board's ability to effectively manage the town's finances and fund balance and adequately plan for future capital needs is diminished.

Multiyear written financial and capital plans are useful tools...to plan for and address the long-term financial operations and capital needs.

The Board Did Not Develop and Adopt Written Multiyear Financial and Capital Plans

Town officials have not developed comprehensive, written multiyear financial and capital plans. As a result, fund balance was not effectively managed because the Board did not know what effect financial decisions would have on fund future balance levels. The Deputy Supervisor, who was primarily responsible for the initial stages of creating the annual budget, acknowledged the importance of multiyear plans but also indicated that he did not see what their use would be in the Town's current fiscal situation. Instead of creating and using multiyear plans potentially showing the effects decisions may have on the Town's declining fund balance, the Board tried to correct the declining fund balance in the general fund by increasing the tax levy in the general fund in order to build more fund balance, while lowering the levy in the highway fund to prevent significant fluctuations in the overall levy (Figure 3). As seen in Figure 2, this led to the Board continually appropriating more fund balance each year in the highway fund and ultimately, resulted with the appropriation of fund balance that was not available. As a result, budgeted appropriations were not sufficiently supported by recurring revenue sources.

Figure 3: General and Highway Funds Tax Levy

General Fund	2018	2019	2020
Real Property Taxes	\$125,000	\$225,000	\$237,000
Increase/Decrease From Previous Year	\$6,000	\$100,000	\$12,000
Highway Fund	2018	2019	2020
Real Property Taxes	\$442,000	\$357,000	\$353,000
Increase/Decrease From Previous Year	(\$9,000)	(\$85,000)	(\$4,000)

While these actions did not improve the fund balance levels in the general fund between 2018 and 2019,² we agree with the Supervisor's projection that the Town could experience a small operating surplus in the general fund in 2020. However, this potential operating surplus would not be enough to eliminate the fund balance deficit and repay the \$60,000 due to the water and sewer funds. We also agree with the Supervisor's estimates that dependent on the actions the Board may take for the remainder of 2020, fund balance will again decrease in the highway, water and sewer funds.

² From 2018 to 2019 the fund balance levels in the general fund decreased by \$15,000.

What Do We Recommend?

The Board should:

1. Develop and adopt a written comprehensive fund balance policy that clearly defines the financial goals of the Town, including but not limited to, defining the appropriate levels of fund balance to be maintained in each operating fund.
2. Develop a plan to address the accumulated deficits in the general and highway funds that also ensures that outstanding interfund loans are repaid in accordance with statute.
3. Develop and adopt budgets which better align recurring revenues with recurring expenditures and if fund balance is appropriated, ensure estimates are realistic.
4. Develop comprehensive written multiyear financial and capital plans that project operating and capital needs and financing sources over a three to five year period. These plans should be monitored and updated on an ongoing basis.

Appendix A: Response From Town Officials

TOWN OF CANEADEA

8911 STATE ROUTE 19
PO BOX 596
CANEADEA, NY 14717

MICHEL A. COX, *Supervisor*
PHILIP G. STOCKIN, *Deputy Supervisor*

KRISTINA M. MALE, *Town Clerk*
Phone and Fax 585-365-2928
TDD-711

March 16, 2021

Office of NYS Comptroller
110 State Street, 15th Floor
Albany, NY 12236

Town of Caneadea Audit 2020M-145
Response to Draft Report

To Whom It May Concern:

The Town of Caneadea would like to thank the Office of the State Comptroller, Division of Local Government and School Accountability for the audit they completed for our town in 2020. We are especially grateful for the audit staff's patience and flexibility while requesting and gathering information during a year of minimized gatherings and in-person interactions.

The Town of Caneadea agrees with the immediate findings of the Comptroller's audit.

The first finding was related to a budgeting error that caused the general fund to enter into a negative fund balance situation. The town considers this to be an anomaly due to its successful track record in years prior to the audit of using appropriated fund balance to offset contingent expenditures. This allowed the town to stay within the 2% tax cap while preparing for contingencies. However, as stated in the second finding, the town agrees that developing a multi-year plan along with a fund balance policy will better position the town for avoiding this error and other issues in the future.

The town was already aware on its own of this issue during the 2020 year prior to the start of the audit. In fact, steps were taken at the end of 2020 to clean up the interfund Due To's and From's on the trial balances and during 2020 in preparing the 2021 budget to get the general fund back to positive fund balance.

The Board of the Town of Caneadea will be working diligently to write a corrective action plan to be submitted to the Office of the State Comptroller within 90 days of the release of the final report. Thank you again for your work in completing this audit.

Sincerely,

Michel A. Cox, Supervisor

See Note 1 Page 9

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Appendix B: OSC Comment on the Town's Response

Note 1

In addition to the budgeting error, the Town continued to appropriate, as recently as 2020 in the highway fund, more fund balance than what was available. These continued budgeting practices have contributed to the overall decline of the Town's financial condition.

Appendix C: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Town officials to gain an understanding of Town operations and officials' management and oversight responsibilities regarding budgetary and fiscal control and to determine whether written fund balance policies or multiyear financial and capital plans were developed, adopted and used and to assess the budget development process and the estimation of fund balance appropriations.
- We analyzed the 2015 through 2019 financial records to determine the results of operations for the four operating funds (general, highway, water and sewer) and the impact these results had on total fund balance.
- We reviewed the adopted 2015 through 2020 budgets and financial records for all four operating funds to assess whether appropriated fund balance included in the budget was actually available for use.
- We prepared budget-to-actual comparisons for 2015 through 2019 for all four operating funds' revenues and appropriations. Using this analysis, and the adopted 2020 budget, we compared our estimates of 2020 operating results with the Supervisor's projections to assess anticipated 2020 year-end fund balance amounts.
- We analyzed 2015 through 2020 tax levy trends in the general and highway funds to determine what impact the tax levy had on total fund balance.
- We analyzed 2015 through 2020 interfund activity in all four operating funds to determine the extent of interfund borrowing that occurred and whether amounts owed could be repaid.

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.

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 provided 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 the CAP available for public review in the Clerk's office.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263196&issued=All

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263206&issued=All

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263211&issued=All

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

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