



# Town of Guilford

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## Budgeting

2023M-144 | March 2024

# Contents

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- Report Highlights . . . . . 1**
  
- Budgeting. . . . . 2**
  - What Is a Realistic Budget? . . . . . 2
  - The Board Did Not Develop Realistic Budgets . . . . . 2
  - What Do We Recommend? . . . . . 5
  
- Appendix A – Response From Town Officials . . . . . 6**
  
- Appendix B – Audit Methodology and Standards . . . . . 7**
  
- Appendix C – Resources and Services. . . . . 8**

# Report Highlights

## Town of Guilford

### Audit Objective

Determine whether the Town of Guilford (Town) Town Board (Board) developed realistic budgets.

### Key Findings

The Board did not develop realistic budgets. Estimated revenues were underestimated and appropriated fund balance was not used, resulting in unrestricted fund balance in the general and highway funds that exceeded the Town's fund balance policy (policy) limit.

- Actual revenues exceeded estimated revenues by an average of \$210,000 (42 percent) in the general fund and \$180,000 (17 percent) in the highway fund.
- The Board adopted budgets that planned for using \$228,000 of fund balance to offset projected operating deficits in the general fund. Instead, the general fund incurred operating surpluses each year for a combined total of \$378,991. Therefore, appropriated fund balance was not used as intended.
- Unrestricted fund balance for the general and highway funds exceeded the maximum allowable limit, per the Town's policy, ranging from \$464,000 to \$709,000 in the general fund and \$168,000 to \$225,000 in the highway fund.

### Key Recommendations

- Adopt budgets that contain realistic revenue estimates based on available current data and historical trends.
- Appropriate fund balance when needed.
- Reduce unrestricted fund balance amounts to within the amounts allowed by the Town's policy.

Town officials agreed with our recommendations and indicated they will take corrective action.

### Audit Period

January 1, 2022 – May 31, 2023.

We extended our audit period to January 1, 2020 to review historical trends in the budgets.

### Background

The Town is located in Chenango County. The elected five-member Board, composed of the Town Supervisor (Supervisor) and four Board members, is responsible for the general management and control of the Town's financial affairs, including adopting the annual budget and establishing financial policies.

The Town has two main operating funds: the general and highway funds. The general fund is funded primarily by real property taxes and sales tax and the highway fund is funded primarily with real property taxes and Consolidated Local Street and Highway Improvement Program (CHIPS) revenues.

#### Quick Facts

#### General and Highway Funds

2023 Appropriations	\$2 million
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2023 Real Property Tax Levies	\$1 million
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# Budgeting

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## What Is a Realistic Budget?

A realistic budget begins with sound estimates and well-supported budgetary assumptions. Budgetary estimates must be clear and realistic and the total financing sources from estimated revenues, appropriated fund balance and appropriated reserves must equal a town's estimated expenditures for the fiscal year. Budgets should be based on historical data or known trends, in which recurring revenues finance recurring expenditures.

When a town board appropriates fund balance in the budget to finance operations, this means that the town board is budgeting for a planned operating deficit (expenditures exceeding revenues), which is equal to the amount of fund balance that is appropriated.

A town may retain a reasonable portion of unrestricted fund balance as a financial cushion for unforeseen circumstances. A fund balance policy that addresses the appropriate level of fund balance to be maintained in each fund can provide a town board with guidelines to use during the budget process.

The Board adopted a fund balance policy (policy) that states that no less than 25 percent and no more than 50 percent of the current year's appropriations plus the amount appropriated for the next year may be retained as "surplus funds".

## The Board Did Not Develop Realistic Budgets

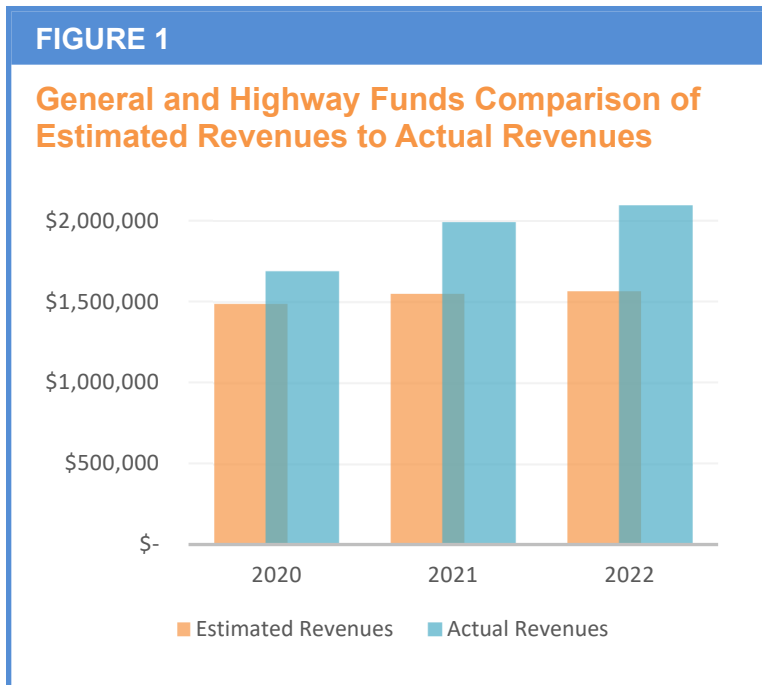
We compared the Town's 2020 through 2022 estimated revenues and appropriations with actual operating results for the general and highway funds and determined that appropriations were generally reasonable. However, estimated revenues were continually underestimated. Additionally, real property taxes for 2020 through 2023 increased \$35,502 (15 percent) in the general fund and \$34,014 (4.8 percent) in the highway fund.

Estimated Revenues – Actual revenues exceeded estimated revenues by an average of \$210,000 (42 percent) in the general fund and \$180,000 (17 percent) and in the highway fund (Figure 1). Four revenue accounts had underestimated revenues totaling more than \$838,000 in at least two of the last three years, as follows:

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A fund balance policy that addresses the appropriate level of fund balance to be maintained in each fund can provide a town board with guidelines to use during the budget process.

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- Sales tax revenue exceeded estimates for all three years by an average of \$153,000, with variances ranging from \$112,000 to \$174,000.
- Mortgage tax revenue exceeded estimates for all three years by an average of \$26,000, with variances ranging from \$13,000 to \$34,000.
- The Board did not budget for franchise tax revenue in two of the years and variances ranged from \$10,000 to \$15,000.
- CHIPS revenues exceeded estimates for two years by an average of \$138,000, with variances ranging from \$53,000 in 2022 to \$222,000 in 2021.

Three Board members and the Supervisor told us that they budget conservatively for these specific revenues because they did not want to estimate more than what they may receive. However, the Board should use historical trend analyses and previous year’s actual results to develop its budget estimates. They told us that they would examine these revenues for future budgets and try to align them with the actual revenues received and any known historical or future trends.

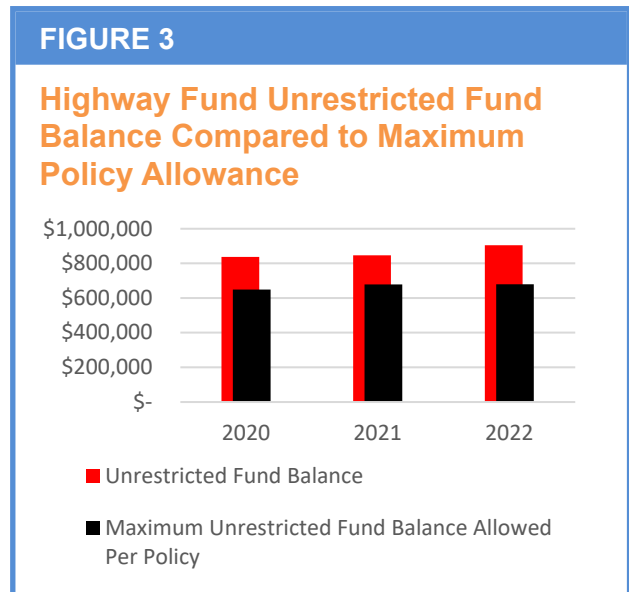
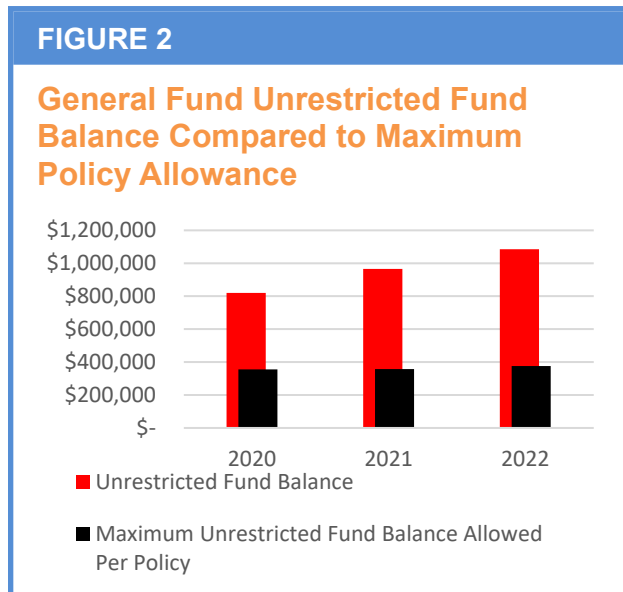
Appropriated Fund Balance – Three Board members and the Supervisor told us that they have been appropriating the same amount of fund balance each year for unexpected expenditures such as emergency equipment needs or repairs. However, it is not appropriate for the Board to appropriate fund balance for that purpose and the Board already includes a contingency appropriation in the budget for unforeseen expenditures.

For example, in 2020 through 2022 the Board adopted budgets that required the use of \$228,000 and \$294,000 of fund balance from the general and highway funds, respectively, to fund projected operating deficits in those funds. However, in the general fund, an operating surplus totaling \$378,991 was realized during the audit period. Therefore, appropriated fund balance was not used.

While the Town’s highway fund realized an operating deficit totaling \$62,000 during the audit period, this was primarily due to unbudgeted equipment purchases totaling \$183,156.<sup>1</sup>

While fund balance should only be appropriated if it is needed to fund operations, the budgeting practices resulted in the Town’s unrestricted fund balance (excluding appropriated fund balance)<sup>2</sup> exceeding levels allowed by the Board’s fund balance policy.

During the audit period, the general fund exceeded the Town’s maximum allowable fund balance limit ranging from \$464,000 to \$709,000 (Figure 2) and the highway fund exceeded the Town’s maximum allowable limit ranging from \$168,000 to \$225,000 (Figure 3).



Three Board members and the Supervisor explained that they have not decreased fund balance due to uncertainty surrounding the cost of a dam project. Additionally, they intend to replace highway equipment. However, Town officials

1 In 2021, the adopted budget for equipment was \$170,000 but the Town spent \$353,156.

2 We excluded appropriated fund balance because it was not being retained and was already being used to reduce the tax levy for the subsequent fiscal year.

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should plan for future equipment and capital needs by properly creating or funding appropriate reserves through the budget process.<sup>3</sup>

Had the Board and officials used historical trend analyses and previous years' actual results of operations to develop their budget estimates, they likely would have estimated revenues more accurately and been more transparent with the public and taxpayers. Appropriating fund balance that is not needed and adopting unrealistic budgets could result in unnecessary increases to fund balance levels and real property taxes.

### **What Do We Recommend?**

The Board should:

1. Adopt budgets that contain realistic estimates based on current data and historical trends, and appropriate fund balance only when needed to fund operations.
2. Reduce unrestricted fund balance to within the amounts allowed by the Town's policy.

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<sup>3</sup> Refer to our publications *Accounting and Reporting Manual* available on our website at <https://www.osc.state.ny.us/files/local-government/publications/pdf/arm.pdf> and *Reserve Funds* available on our website at <https://www.osc.ny.gov/files/local-government/publications/pdf/reserve-funds.pdf>

# Appendix A: Response From Town Officials

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**TOWN OF GUILFORD**  
Susan McIntyre, Town Supervisor

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Binghamton, NY 13901-4417

Re: Initial Response - Town of Guilford Budgeting ROE 2023M-144

Dear Ms. Singer;

The draft audit report referenced above was presented to the Guilford Town Board at the 14 February 2024 meeting. Following discussion, Councilmembers decided to issue this initial response letter to your office acknowledging receipt and review of the audit, and to further explore necessary adjustments to the Town's Fund Balance Policy.

A corrective action plan for incorporation into the Town's 2025 budget planning activities if forthcoming and will be provided to your office in the near future.

Please extend my appreciation to [REDACTED] and [REDACTED] for their time and assistance in supporting the Town of Guilford in maintaining sound fiscal planning.

Sincerely,



Susan McIntyre  
Guilford Town Supervisor



23 FEB 2024



## Appendix B: Audit Methodology and Standards

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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. We obtained an understanding of internal controls that we deemed significant within the context of the audit objective and assessed those controls. Information related to the scope of our work on internal controls, as well as the work performed in our audit procedures to achieve the audit objective and obtain valid audit evidence, included the following:

- We interviewed Town officials and reviewed Board meeting minutes to gain an understanding of the Town's budgeting development and monitoring process.
- For fiscal years 2020 through 2022, we compared budget estimates to actual results to determine whether budgets were reasonable for the general and highway funds. We reviewed variances to determine which individual revenues had the largest variances for at least two of the three years.
- For fiscal years 2020 through 2022, we calculated the results of operations to determine whether there was an operating surplus or deficit and whether appropriated fund balance was used.
- For fiscal years 2020 through 2022, we analyzed the Town's fund balance to identify trends. We calculated unrestricted fund balance to determine whether it was within the Town's policy limits.

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 Town Clerk's office.

## Appendix C: Resources and Services

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### **Regional Office Directory**

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

[www.osc.ny.gov/local-government/publications](http://www.osc.ny.gov/local-government/publications)

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

[www.osc.ny.gov/local-government/fiscal-monitoring](http://www.osc.ny.gov/local-government/fiscal-monitoring)

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

[www.osc.ny.gov/local-government/publications](http://www.osc.ny.gov/local-government/publications)

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[www.osc.ny.gov/local-government/resources/planning-resources](http://www.osc.ny.gov/local-government/resources/planning-resources)

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

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## Contact

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<https://www.osc.ny.gov/local-government>

Local Government and School Accountability Help Line: (866) 321-8503

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