



Town of Sherburne

Budgeting

2025M-3 | April 2025

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Audit Results

Town of Sherburne



Audit Objective

Did the Town of Sherburne (Town) Board (Board) develop realistic budgets?

Audit Period

December 31, 2020 – December 31, 2023.

We extended our audit period to November 12, 2024 to analyze the 2025 adopted budget.

Understanding the Program

A realistic budget begins with sound estimates and well-supported budgetary assumptions. Budgets should be based on historical data or known trends, in which recurring revenues finance recurring expenditures. This helps the Town to not levy more taxes than necessary.

The Town has five funds which include the four main operating funds, which are the general fund town-wide (TW), highway fund TW, general fund town-outside-village (TOV) and highway fund TOV. The Town's 2024 budgeted appropriations were as follows:

- General fund TW: \$504,700
- Highway fund TW: \$615,300
- General fund TOV: \$70,600
- Highway fund TOV: \$519,700

The TW funds are funded primarily by real property taxes, while the general fund TOV is funded primarily by real property taxes and sales tax, and the highway fund TOV is funded primarily by sales tax and Consolidated Local Street and Highway Improvement Program (CHIPS) revenues.

Audit Summary

The Board adopted unrealistic budgets. The budgets underestimated revenues and overestimated expenditures. In addition, officials appropriated fund balance to balance the budgets because purported revenues were not sufficient to fund operations. However, operating surpluses occurred which resulted in an unplanned increase in fund balance. Furthermore, the Board did not have written multiyear capital or financial plans or a written fund balance or reserve policy in place to guide the Board's decisions

regarding appropriate fund balance and reserve fund levels. As a result, more taxes may have been levied than were needed to fund the Town's operations.

During the audit period, the Board adopted budgets for the general fund TW, highway fund TW and highway fund TOV which underestimated revenues by approximately \$3.4 million and appropriations by \$1.9 million combined. Additionally, the Board appropriated \$511,000 of fund balance which was not needed. More specifically, we determined the following:

- The Board adopted budgets which underestimated revenues in total by \$3.1 million for the highway fund TOV and \$257,000 for the general fund TW.
- The Board also adopted budgets which underestimated appropriations by \$2.3 million for the highway fund TOV and overestimated appropriations by \$335,000 for the highway fund TW and \$200,000¹ for the general fund TW.
- Unrealistic budget estimates resulted in an unplanned operating surplus totaling \$1.2 million² while the Board planned for operating deficits totaling \$511,000. As a result, none of the appropriated fund balance was needed.
- Unrestricted fund balance increased by \$887,000, and without written multiyear capital or financial plans, taxes may have been levied unnecessarily.

The report includes five recommendations that, if implemented, will improve the Town's budgeting process. Town officials agreed with our recommendations and indicated that they have initiated or plan to initiate corrective action.

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. Our methodology and standards are included in Appendix C.

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.

¹ Net total

² Ibid.

Budgeting Findings and Recommendations

Budgetary estimates must be clear and realistic, and the total financing sources from estimated revenues and appropriated fund balance must equal a town's estimated expenditures for the fiscal year. 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 board with guidelines to use during the budget process. Additionally, multiyear capital and financial plans for a three- to five-year period help the board assess long-term needs and alternative approaches to financial issues, such as accumulating fund balance, obtaining financing or using fund balance to finance annual operations. When the board appropriates fund balance in the budget to finance operations, the board anticipates an operating deficit (expenditures exceeding revenues), which is equal to the amount of fund balance that is appropriated. More details on the criteria used in this report are included in Appendix A.

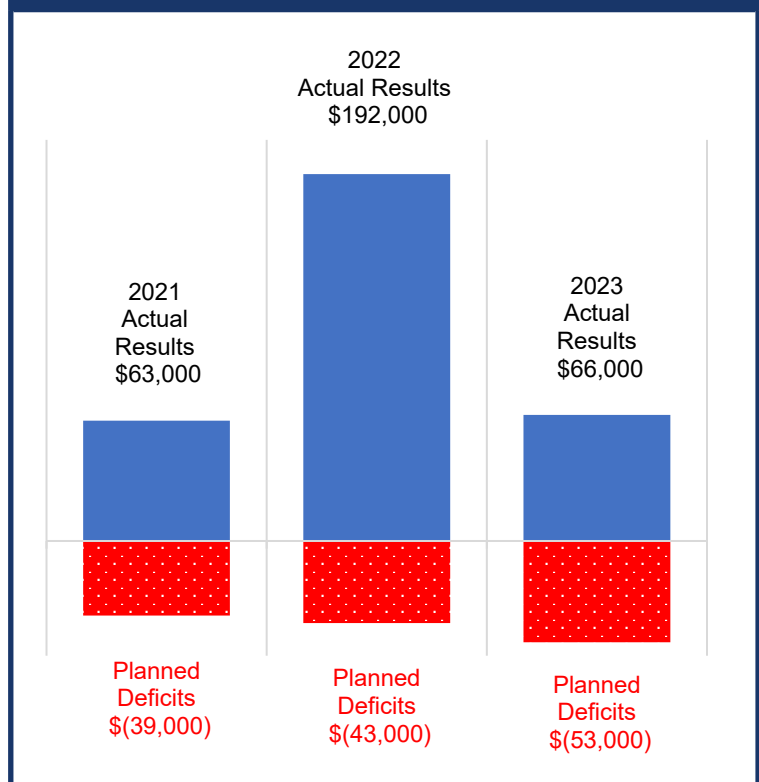
Finding 1 – The Board adopted unrealistic budgets which led to \$1.2 million in operating surpluses.

We compared estimated revenues and appropriations to actual revenues and expenditures for the 2021 through 2023 fiscal years. During that period, the general fund TW, highway fund TW and highway fund TOV combined, generated a total of approximately \$1.2 million in operating surpluses. The general fund TOV revenues and expenditures were generally reasonable.

General Fund TW – The Board underestimated revenues by \$257,000 and overestimated appropriations by \$200,000,³ which resulted in unplanned operating surpluses totaling \$321,000 (Figure 1). The Board underestimated revenues consistently in each year during our audit period, with significant budget variances as follows:

- Mortgage tax totaling \$61,000 (57 percent),
- Interest and earnings totaling \$49,000 (91 percent), and

FIGURE 1: General Fund TW Planned Operating Deficits vs. Actual Operating Results



³ Ibid.

- Franchise fees totaling \$11,000 (30 percent).

Additionally, the Board overestimated health insurance appropriations by approximately \$114,000 (156 percent) over the three years, which contributed to the operating surpluses.

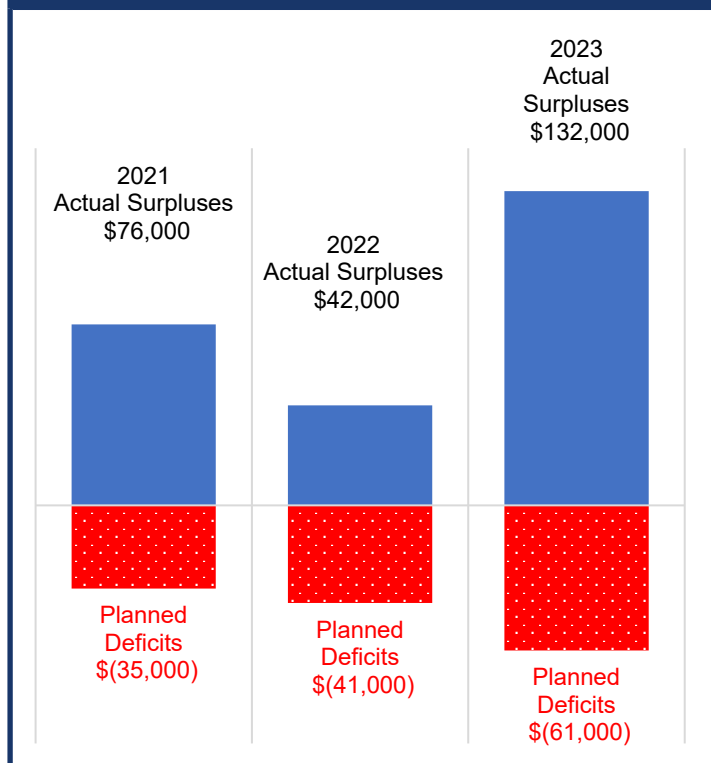
Furthermore, because the Board's budgeted appropriations exceeded the budgeted revenues, the Board appropriated fund balance totaling \$135,000 as a financing source from 2021 through 2023. However, the Town did not need any of the appropriated fund balance because the variances between the adopted budget and operational results resulted in operating surpluses.

The Town Supervisor (Supervisor) told us that the Board generally underestimated revenues for mortgage tax and interest earnings because it was hard to predict how much the Town would receive during and after the COVID-19 pandemic. However, if the Board considered the trend of actual revenues over the past three years in these accounts, the excessive variances could have been reduced. In addition, the Supervisor told us that the Board overestimated the health insurance appropriations because some employee turnover occurred, and officials could not determine whether new employees would choose the single or family health insurance plans. In addition, he told us rates on family plans have risen approximately 50 percent, and some employees have changed between single and family plan coverage, in the last three years. However, considering historical trends may have helped Town officials develop realistic estimates, and over the past three years, Town health insurance costs remained stable, providing another opportunity to reduce excessive variances.

Highway Fund TW – The Board generally budgeted revenues reasonably for highway fund TW, but overestimated appropriations by \$335,000, which resulted in a combined operating surplus during the audit period of \$250,000. In addition, the Board planned for operating deficits totaling \$137,000 but did not need any of the appropriated fund balance (Figure 2). The Board overestimated appropriations consistently in each year during our audit period, with the largest budget variances as follows:

- Snow removal – contractual, totaling \$180,000 (70 percent),
- Machinery – personal services, totaling \$118,000 (466 percent),
- State retirement totaling \$42,000 (96 percent), and

FIGURE 2: Highway Fund TW Planned Operating Deficits vs. Actual Operating Results



- Health insurance by \$36,000 (23 percent).

The Supervisor told us that the Board generally overestimated these appropriations to ensure that the Town was prepared for any changes in personnel and in case any unexpected circumstances arose, such as local flooding or winter weather storms. The Board also overestimated the appropriations for health insurance because officials could not determine whether employees would choose the single or family health insurance plans and some employee turnover occurred. However, over the past three years, Town health insurance costs remained stable; therefore, that trend should have been considered when budgeting for health insurance.

Highway Fund TOV – The Board underestimated revenues by \$3.1 million and underestimated or did not budget for appropriations by \$2.3 million which resulted in a \$604,000 operating surplus during the audit period. Meanwhile, the Board planned for operating deficits by appropriating \$239,000 of fund balance that was not needed (Figure 3).

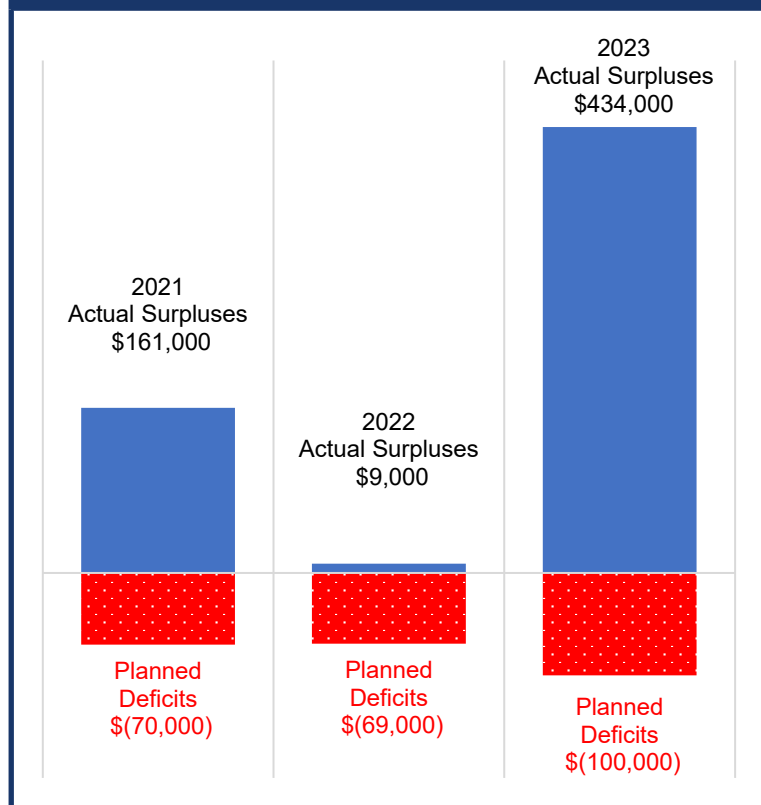
The Board underestimated revenues consistently in each year during our audit period, with the largest budget variances as follows:

- Unbudgeted State aid for a bridge grant totaling \$905,000,
- Unbudgeted CHIPS revenues totaling \$728,000,
- Unbudgeted sale of equipment totaling \$695,000 and
- Sales tax totaling \$473,000 (50 percent).

Additionally, the Board either underestimated or did not budget for several significant appropriations, with budget variances that included:

- Unbudgeted TW bridge grant projects totaling \$1.3 million,
- Machinery and equipment purchases totaling \$560,000 (59 percent),
- CHIPS expenditures totaling \$419,000 (49 percent) and
- Diesel fuel and gasoline totaling \$62,000 (47 percent).

FIGURE 3: Highway Fund TOV Planned Operating Deficits vs. Actual Operating Results



The Highway Superintendent (Superintendent) told us the variances occurred because the CHIPS program has become much more complicated to estimate due to the number of programs, and when expenditures are made late in the year, the Town does not receive the funds until the ensuing year. As a result, some uncertainty resulted in planning for both the CHIPS revenues and related expenditures. He also told us the Board did not budget for the equipment purchases and fuel because Town officials were not sure how much they would spend because these account lines are hard to predict since they are related to everyday operating activities that are highly variable. However, a multiyear capital plan can help predict equipment costs, and considering historical trends for fuel costs may have helped Town officials develop more realistic estimates. Additionally, the Superintendent stated that he did not budget for the grant-related bridge expenditures because the Town gets 100 percent reimbursement from New York State. However, for transparency purposes, even if an expenditure is reimbursable, it should be included in the budget as an estimated revenue and appropriation.

While budget variances are expected, when the Board underestimates revenues and overestimates appropriations, unplanned operating surpluses are produced, which reduces transparency to the residents and taxpayers during the budget process. As a result, the Town may have levied more taxes than necessary.

Recommendations

The Board should:

1. Develop and adopt annual budgets that contain reasonable estimates of revenues and expenditures based on historical trends and/or other known factors, such as intended appropriations of fund balance.
2. Ensure responsible officials pursue and attend budget development training opportunities.

Finding 2 – The Board did not establish written multiyear capital or financial plans or a fund balance and reserve policy.

Due in part to the budgeting findings discussed in the previous section, the Town's unrestricted fund balance grew by \$887,000 during the audit period for the same three funds.⁴ Unrestricted fund balance increased 11 percent in the general fund TW, 70 percent in the highway fund TW, and 634 percent in the highway fund TOV. Consequently, the operating surpluses for the general and highway funds TW and highway fund TOV accumulated primarily as unrestricted fund balance during the audit period and may have resulted in raising taxes unnecessarily (Figure 4).

⁴ The general fund TOV was not included in the analysis because the findings were considered immaterial.

Figure 4: Unrestricted Fund Balance (FB) at Year End

	2020	2021	2022	2023
TW General Fund				
Total Unrestricted FB at Year End^a	\$370,318	\$433,741	\$510,254	\$412,886
Next Year's Appropriations	\$448,078	\$461,910	\$483,500	\$504,675
Unrestricted FB as a Percentage of Next Year's Appropriations	83%	94%	106%	82%
TW Highway Fund				
Total Unrestricted FB at Year End	\$353,489	\$429,316	\$471,571	\$602,222
Next Year's Appropriations	\$554,887	\$572,300	\$604,300	\$615,320
Unrestricted FB as a Percentage of Next Year's Appropriations	64%	75%	78%	98%
TOV Highway Fund				
Total Unrestricted FB at Year End	\$93,929	\$174,597	\$201,123	\$689,742
Next Year's Appropriations	\$566,306	\$604,404	\$647,767	\$884,085
Unrestricted FB as a Percentage of Next Year's Appropriations	17%	29%	31%	78%
a Prior period adjustment was made to unrestricted fund balance in 2023 for reclassification of \$114,000 in federal aid to deferred revenue per OSC guidance and the reclassification of \$150,000 of unrestricted fund balance to a capital reserve.				

The Board did not develop or adopt written multiyear capital and financial plans projecting financial and capital needs for the Town. Additionally, the Board did not develop or adopt a written fund balance and reserve policy to determine needed amounts for fund balance and specific reserves and establish plans for periodically reviewing these funds. Had the Board developed written multiyear capital and financial plans and a written fund balance and reserve policy, the goals of maintaining an adequate level of fund balance and improving the Town's capital assets over time would have been more transparent to the Town's residents and taxpayers.

The Supervisor told us that the Board informally discusses long-term financial planning and fund balance levels. However, he said they did not formalize these discussions into documented plans or policies because the Town has historically been in good financial condition, and total fund balance has never been reduced to what the Board would consider low levels. However, using this method neglects the consideration of excessive fund balance and causes a lack of transparency with the Town's residents and taxpayers.

The Supervisor also stated that the Town plans to buy property and build a salt shed over the next several years, and the Board funded a new capital reserve with \$150,000 in surplus funds in 2023. However, the Board should typically plan for future capital expenditures by properly funding appropriate reserves through the budget process. The Supervisor told us he saw the merits in having such plans and policies in place which would also provide transparency to residents and taxpayers and provide valuable information to develop realistic budgets. Without written multiyear capital and financial plans and a written fund balance and reserve policy, it is difficult for the Board to properly and transparently manage the Town's fund balance.

Recommendations

The Board should:

3. Develop a plan to reduce the amounts of unrestricted fund balance determined to be excessive in a manner that benefits Town taxpayers. Unrestricted fund balance can be used as a financing source for:
 - Funding one-time expenditures,
 - Funding needed reserves, and
 - Reducing property taxes.
4. Develop, adopt and routinely update written multiyear capital and financial plans, and use these plans in the budget development process.
5. Develop, adopt and periodically update a written fund balance and reserve policy and use the policy in the budget development process.

Appendix A: Profile, Criteria and Resources

Profile

The Town, located in Chenango County, is governed by an elected five-member Board comprised of the Supervisor and four Board members. The Villages of Sherburne and Earlville⁵ are within the borders of the Town. The Board is responsible for the general management and oversight of Town operations and control of the Town's financial affairs, including adopting the annual budget and establishing financial policies. The Supervisor hired a new bookkeeper on January 1, 2023, and the Board appointed her as budget officer on July 12, 2023. The prior bookkeeper, who retired, was also appointed as the Town's budget officer and prepared the 2021, 2022 and 2023 budgets.

Criteria – Budgeting

The budget officer is responsible for preparing the final budget document and needs to work closely with department heads and the chief fiscal officer (i.e., the supervisor) to develop a realistic blueprint for the upcoming fiscal year. In towns, the town board (board) generally has the authority and responsibility to adopt realistic, structurally balanced budgets and to monitor the budget continually. Department heads are responsible for providing the budget officer with accurate financial information relevant to the operation of their department. Once the budget has been adopted, the board should monitor actual revenues and expenditures to identify variances. The board is responsible for monitoring expenditures to ensure they stay within appropriations and for reviewing budget status reports to determine whether significant variances exist. In addition, the board is responsible for accurately budgeting all revenues expected to be received.

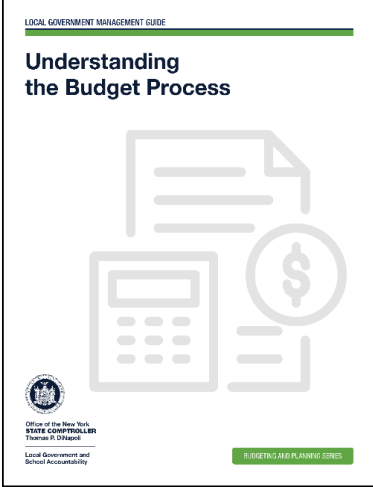
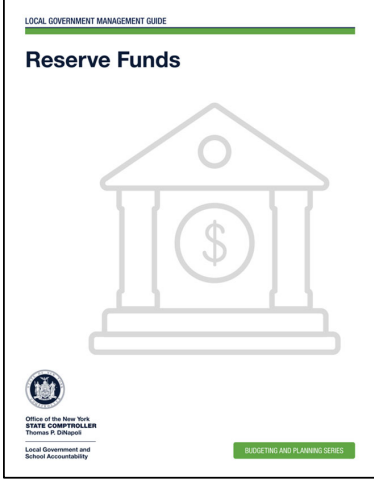
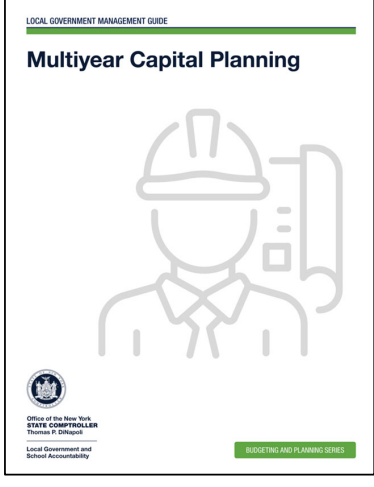
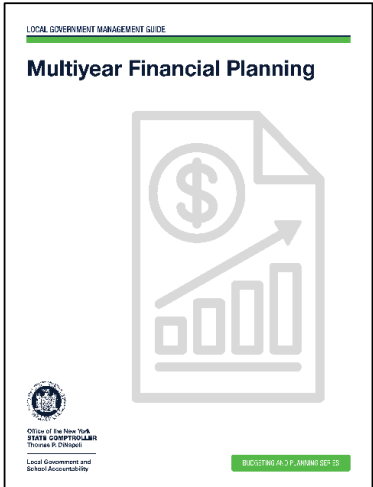
Reserve funds provide a mechanism for legally saving money to finance all or part of future infrastructure, equipment or other needs. The board should adopt a written policy that communicates to residents and taxpayers the reasons money is being set aside, the intent for the reserves and optimal funding levels. Amounts to be placed in reserves should be included in the annual budget, as this increases transparency and allows residents and taxpayers to know the board's plans. In addition, the board is responsible for establishing written multiyear capital and financial plans by balancing capital priorities with fiscal constraints. Such plans should have a clear mission to maintain and improve the town's capital assets over time. These plans and policies are an important planning tool for the board and an effective means of communicating the board's goals and priorities to residents and taxpayers.

⁵ The Village of Earlville is also within the Town of Hamilton in Madison County.

Additional Budgeting Resources

FIGURE 5: OSC Publications

OSC *Local Government Management Guides* and other informational resources available on our website to help officials understand and perform their responsibilities.

Understanding the Budget Process	Reserve Funds	Multiyear Capital Planning
		
https://www.osc.ny.gov/files/local-government/publications/pdf/understanding-the-budget-process.pdf	https://www.osc.ny.gov/files/local-government/publications/pdf/reserve-funds.pdf	https://www.osc.ny.gov/files/local-government/publications/pdf/multiyear-capital-planning.pdf
Multiyear Financial Planning		
		
https://www.osc.ny.gov/files/local-government/publications/pdf/multiyear-financial-planning.pdf		

In addition, our website can be used to search for audits, resources, publications and training for officials: <https://www.osc.ny.gov/local-government>.

Appendix B: Response From Town Officials

COUNTY OF CHENANGO BOARD OF SUPERVISORS

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TOWN OF SHERBURNE
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TOWN OF SHERBURNE

BUDGETING

2025M-3

April 7, 2025

At the first meeting with the two auditors I told them I welcomed them with the possibilities of finding and correcting any mistakes we might be doing in governing the Town of Sherburne. Both auditors were very helpful through the whole audit process in advising us on any questions we had, in particular the Broadband Grant we were awarded. The Town Board acknowledges the auditors final report and had already accomplished 3 of the 5 recommendations and are working on the other two. On behalf of the Town Board and myself I want to thank the two auditors for their time and guidance through the whole audit procedure.

Respectfully,

Charles A. Mastro

Town Supervisor

Appendix C: Audit Methodology and Standards

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, resolutions and policies to gain an understanding of the Town's financial planning and budgeting development and monitoring to determine whether the Board adopted multiyear plans and fund balance or reserve fund policies.
- We reviewed monthly Board meeting packets to determine whether the Board was provided with budget status information and updates.
- We compared estimated revenues to actual revenues and budgeted appropriations to actual expenditures for the 2021 through 2023 fiscal years to analyze the reasonableness of the budgets.
- We calculated the results of operations using the Town's annual financial reports, including adjusting for any prior period adjustments, for the 2021 through 2023 fiscal years to determine whether there was an operating surplus or deficit and whether appropriated fund balance was used. We calculated the percentage of the upcoming year's budgeted appropriations compared to the ending unrestricted fund balance for the audit period.
- We reviewed variances in three funds (the general and highway funds TW and highway fund TOV), representing 81 percent of all funds' 2023 budgeted appropriations. We selected these funds based on the significance of variances between budget estimates and actual results. We reviewed these funds to determine which individual revenue and appropriation estimates had the largest variances by comparing the actual results to the budget. We calculated those variance percentages using the actual results. We then interviewed officials to determine the cause of significant or unusual variances.
- We reviewed the 2024 budget estimates to determine whether the Town's budgeting practices were consistent with prior years.

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.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or relevant population size and the sample selected for examination.

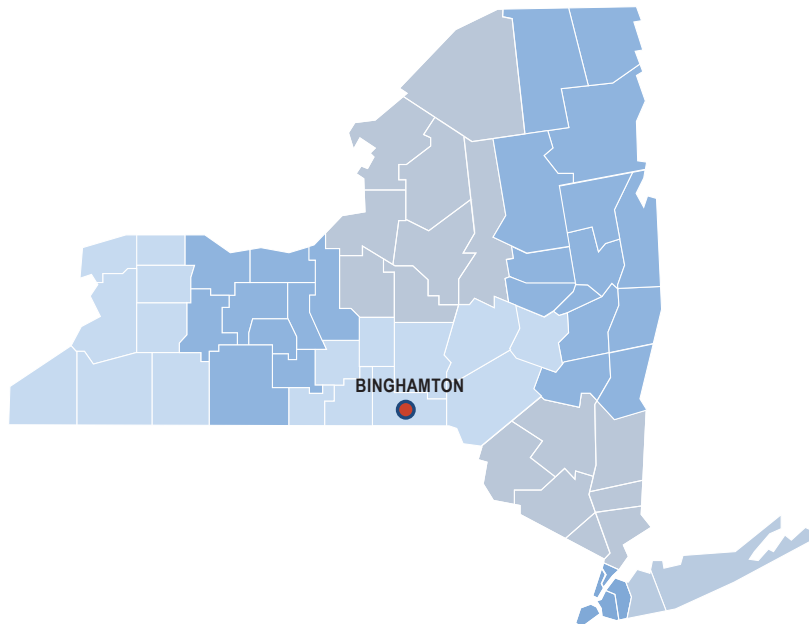
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