

# Town of Cochecton

## Fund Balance Management and Multiyear Planning

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FEBRUARY 2019

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

# Contents

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- Report Highlights . . . . . 1**
  
- Fund Balance Management and Multiyear Planning. . . . . 2**
  - What Is Effective Fund Balance Management and Multiyear Planning? . . . . . 2
  
  - The Board Adopted Realistic Budgets and Maintained Reasonable Fund Balance Levels in the General and Highway Funds . . . . . 2
  
  - The Unemployment Reserve Appears To Be Overfunded . . . . . 3
  
  - The Sewer District Experienced Operating Deficits and Declining Fund Balance . . . . . 3
  
  - The Board Has Not Adopted Multiyear Financial and Capital Plans. . . 5
  
  - What Do We Recommend? . . . . . 6
  
- Appendix A – Response From Town Officials . . . . . 7**
  
- Appendix B – Audit Methodology and Standards . . . . . 9**
  
- Appendix C – Resources and Services. . . . .10**

# Report Highlights

## Town of Cochecton

### Audit Objective

Determine whether the Board effectively managed fund balances and reserves for the general, highway and sewer district funds and has multiyear financial and capital plans.

### Key Findings

- We project that 2018 sewer district expenditures will exceed the amounts budgeted by 41 percent and the fund will end 2018 with a budgetary deficiency of \$40,000. As a result, the sewer district will require advances from the general fund totaling at least \$41,506 to fund operations through year-end.
- Although the Board has not developed a formal written fund balance and reserve policy or comprehensive multiyear financial and capital plans for any of the three operating funds, it used available fund balance and reserves, as appropriate, to avoid issuing debt to fund operations.

### Key Recommendations

- Continue to adjust user charges in the sewer district as needed to enable the fund to become self-sufficient.
- Establish a plan for the sewer district to repay the general fund advances.
- Develop and adopt comprehensive multiyear financial and capital plans and a fund balance and reserve fund policy.

Town officials agreed with our recommendations and have initiated or indicated they planned to initiate corrective action.

### Background

The Town of Cochecton is located in Sullivan County.

The Town is governed by an elected Town Board (Board) composed of four Board members and a Town Supervisor (Supervisor). The Board is responsible for the general management and control of financial operations, including adopting the annual budget and establishing financial policies. The Supervisor serves as the chief executive officer, chief fiscal officer and budget officer and is responsible for day-to-day financial operations.

#### Quick Facts

Population	1,314
2018 Combined General Fund and Highway Fund Appropriations	\$1.95 million
2018 Sewer District Appropriations	\$99,888

### Audit Period

January 1, 2017 – August 10, 2018. We extended our audit period back to January 1, 2015 to analyze financial trends.

# Fund Balance Management and Multiyear Planning

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## What Is Effective Fund Balance Management and Multiyear Planning?

A board is responsible for making financial decisions that are in the best interest of the town and its taxpayers. This includes planning for the future and setting long-term priorities and goals. The board also should retain a reasonable amount of fund balance (the difference between revenues and expenditures accumulated over time) for cash flow needs or unexpected expenditures.

While the board is legally allowed to establish reserve funds for certain future purposes (e.g., capital improvements and repairs), the amounts reserved should be reasonable based on identified or planned needs. In addition, the board should ensure that fund balance appropriated for the next year's budget does not exceed the amount projected to be available or needed to provide cash flow and a cushion against unforeseen events.

Multiyear planning consists of several components including realistic budget estimates, multiyear financial and capital plans and fund balance and reserve fund policies. Such policies provide guidance on optimal funding levels for fund balance and reserves along with plans for circumstances when these funds may be used. Having a multiyear financial plan helps the board assess alternative approaches to financial issues, such as accumulating fund balance, obtaining financing or using surplus funds to finance annual operations.

## The Board Adopted Realistic Budgets and Maintained Reasonable Fund Balance Levels in the General and Highway Funds

From 2015 through 2017, we compared budgeted amounts to actual results in the general and highway funds. We found that general fund revenues were within 1 percent of estimates and expenditures were overestimated by an average of 18 percent. These overestimations were mainly attributable to budgeted appropriations for judgments and claims, contingency and State retirement system contributions.

The Board has taken some corrective action by reducing these appropriations, which resulted in total variance declines from 23 percent in 2015 to 15 percent in 2017. During this same period, the highway fund's average revenue variances were within 7 percent of estimated revenues and average expenditure variances were within 4 percent of budgeted appropriations.

From 2015 to 2017, unexpended surplus funds in the general fund decreased from \$526,600 to \$473,600, or approximately 95 percent of 2018 appropriations. While unexpended surplus funds remain relatively high, the Board has taken steps to decrease the balance by appropriating and using some of these funds within the operating budgets from 2015 through 2017 (Figure 1).

**Figure 1: General Fund – Use of Appropriated Fund Balance**

	2015	2016	2017	2018 Projection
<b>Planned Use of Fund Balance</b>	\$140,000	\$122,500	\$120,000	\$100,000
<b>Actual Fund Balance Used</b>	\$27,152	\$28,927	\$48,070	\$22,000

Although the Board appropriated \$100,000 of fund balance for the 2018 operating budget, we project that only about \$22,000 will be used to finance operations. Highway fund surplus funds as of December 31, 2017 totaled \$291,500, or approximately 31 percent of 2018 appropriations.

### **The Unemployment Reserve Appears To Be Overfunded**

As of December 31, 2017, the general fund had \$39,650 restricted for assessment revaluations and \$24,100 in an unemployment insurance reserve, while the highway fund had \$177,550 in a capital reserve for equipment and \$22,140 in an employee benefit accrued liability reserve.

Although the Board has no formal reserve policies or plans, we believe the amounts restricted for assessment revaluations and reserved in the two highway fund reserves are reasonable based on recent use and the Board’s informal plans. However, we question the reasonableness of the unemployment insurance reserve because no funds have been expended from this reserve in at least 10 years and no unemployment insurance expenditures were made during our audit period.

### **The Sewer District Experienced Operating Deficits and Declining Fund Balance**

As a result of major infrastructure repair work that exceeded the Board’s planned expectations, the sewer district’s fund balance declined from \$124,000 in 2015 to less than \$11,000 in 2017 (Figure 3).

From 2015 through 2017, estimated revenues were reasonable compared to actual revenues with an average variance of less than 1 percent. However, actual expenditures varied from the Board-adopted estimates on an inconsistent basis each year. Actual expenditures were less than appropriations by 55 percent in 2015 and 33 percent in 2017. However, expenditures exceeded appropriations by 22 percent in 2016.

**Figure 2: Sewer District Budget to Actual Comparison**

	2015	2016	2017	2018 Projection
<b>Appropriations</b>	\$173,279	\$178,779	\$94,308	\$99,888
<b>Actual Expenditures</b>	\$78,165	\$217,299	\$62,759	\$141,111
<b>Amount Under (Over) Budget</b>	\$95,114	(\$38,520)	\$31,549	(\$41,223)
<b>Percentage Under (Over) Budget</b>	55%	(22%)	33%	(41%)

For 2018, we project that sewer district actual expenditures will exceed budgeted appropriations by approximately \$41,000, or 41 percent. These variances are largely due to significant, unforeseen infrastructure repairs that exceeded the Board's planned expectations in 2016 and 2018. For example, in 2018, the Board planned for infrastructure repairs totaling \$47,500. However, while the project was in progress, additional repairs totaling \$38,000 were required.

The unexpected expenditures combined with \$95,000 in appropriated fund balance and reserves used to finance 2016 operations resulted in an operating deficit of \$133,666 that year and fund balance declining to \$10,634 by the end of 2017. We project an operating deficit of approximately \$51,000 in 2018, which could result in at least a \$41,506 shortfall requiring an advance from the general fund, as of December 31, 2018, to fund sewer operations.<sup>1</sup>

The Board appropriated \$11,000 of fund balance to finance operations in both the 2017 and 2018 budgets, and \$5,000 in the 2019 budget. However, no fund balance was available to appropriate for the 2017 and 2019 budgets and only \$9,560 was available to appropriate for the 2018 budget. The Board financed the sewer district's operations in these years with loans<sup>2</sup> from the general fund.

<sup>1</sup> The Supervisor told us that the amount advanced from the general fund could be as high as \$85,000 depending on the actual results of operations for 2018 and how much cash the Board decides to maintain in the sewer fund.

<sup>2</sup> We did not review the legality of such advances with regard to New York State General Municipal Law, Section 9-a.

**Figure 3: Sewer District Operating Results and Fund Balance (Budgetary Deficit)**

	2015	2016	2017	2018 Projection
<b>Beginning Fund Balance (Budgetary Deficit)</b>	\$123,763	\$123,993	(\$9,673)	\$10,634
<b>Add: Operating Surplus (Deficit)</b>	\$230	(\$133,666)	\$20,307	(\$51,043)
<b>Ending Fund Balance (Budgetary Deficit)</b>	\$123,993	(\$9,673)	\$10,634	(\$40,409)
<b>Less: Nonspendable and Assigned Fund Balance</b>	\$1,169	\$1,050	\$1,073	\$1,097
<b>Fund Balance and Reserves Available (Unavailable) for Appropriation</b>	\$122,824	(\$10,723)	\$9,561	(\$41,506)
<b>Appropriated Fund Balance and Reserves for the Next Year</b>	\$95,000	\$11,000	\$11,000	\$5,000
<b>Amount Appropriated That was Unavailable</b>	\$0	\$11,000	\$1,439	\$5,000

In an effort to restore fund balance, the Board increased sewer user charges, a portion of which is designated to fund a capital reserve for repairs, by \$10,610, or 13.6 percent, from 2015 through 2018. The capital repair reserve was depleted in 2016 and has not been funded due to the recent operating deficit. However, the Board increased user charges again by 12.7 percent in the 2019 budget to stabilize the district.

### **The Board Has Not Adopted Multiyear Financial and Capital Plans**

The Board did not develop or adopt comprehensive, multiyear financial and capital plans. Such plans would be useful tools for the Board to address the fund balance in the general fund and budgetary deficits in the sewer fund and to outline the Board's intentions for financing future capital improvements and maintaining the existing infrastructure.

The Supervisor told us that they intended to re-establish the capital reserve for repairs in the sewer fund. However, necessary infrastructure repairs that exceeded expectations prevented this.

While the Board has no formal multiyear plan in place, it has implemented some components of multiyear planning. For example, the Board reduced unexpended surplus funds in the general fund by appropriating fund balance and using it to finance operations, increased the capital reserve for equipment in the highway fund for future equipment needs and avoided issuing debt to finance operations and capital expenditures. However, without a formal multiyear financial and capital plans, there is a risk the Board's intentions may not be fulfilled.

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## What Do We Recommend?

The Board should:

1. Continue to use the surplus funds in the general fund to benefit taxpayers. Such uses could include, but are not limited to:
  - Funding one-time expenditures
  - Funding needed reserves
  - Paying off debt
  - Reducing property taxes.
2. Discontinue the practice of appropriating fund balance in the sewer district that is not available to finance next year's operations.
3. Establish a plan for the sewer district to repay the amounts advanced by the general fund.
4. Continue to adjust the sewer fund user charges, as needed, to enable the fund to become self-sufficient.
5. Develop and adopt comprehensive multiyear financial and capital plans and fund balance and reserve policies to be used in conjunction with the annual budget process. These plans should be monitored and updated on an ongoing basis.



# Appendix A: Response From Town Officials

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January 31, 2019

To Whom it may Concern, [REDACTED] and NYS Comptroller's Office:

Having received your Examination Report and discussing the preliminary report with your office on January 8<sup>th</sup>, 2019 at the exit discussion myself and the Town Board have reviewed your findings and recommendations.

Recommendation number #1: The Town board will continue to utilize its fund balance for funding one time expenditures, funding reserves, and to keeping property taxes reduced. As the town has no debt other than what the Sewer District owes the General fund, that is the current policy of the Town Board.

Recommendation #2: The practice of appropriating fund balance in the sewer district was lowered from \$11,000.00 to \$5,000.00 for the FY 2019. Going forward the Town Board is not going to continue that practice in the future.

Recommendation #3: The Town Board has addressed at its Regular January meeting and approved Resolution # 15 for the Sewer District to repay the General fund starting in FY 2019 to make payments of \$15,000.00 each year for 5 years and \$10,000.00 payment for the last year, FY 2024.

Recommendation #4: User charges certainly are going to increase due to the repayment to the General fund, the Elimination of appropriating Fund balance, and funding a reserve account for future updates to the system and unexpected repairs. The FY 2019 Sewer rate has increased 14.69% which essentially is how the above three recommendations will be carried out.

Recommendation #5: The Town Board is currently working on a multiyear financial plan, fund balance and reserve policies and will have our accountants assist us going forward. The General Fund, our focus will be on the fund balance policy now and in the future. The Highway Fund we are looking forward right now on a three-year plan on 3 major equipment purchases utilizing our existing reserves but continuing to fund them properly. The board has discussed and plans to continue on being debt free yet maintain infrastructure and equipment as we have in the past. As we look to the future we will try to implement a 5 year Plan. The Sewer Fund is addressed above.



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I hope that our response satisfies your recommendations on the Examination of the Town of Cochecton. If there are any areas or questions you may have, please contact me and they will be addressed.

Thank you,

Gary D Maas Supervisor of Cochecton

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

- We interviewed Town officials and reviewed Board minutes to determine whether the Board adopted fund balance and reserve policies and multiyear financial and capital plans.
- We compared the general, highway and sewer district funds' estimated revenues and appropriations from the Board-adopted budget to the actual revenues and expenditures from 2015 through 2017 to determine whether budgeted revenues and appropriations were realistic.
- We analyzed revenue and expenditure trends using reports from the accounting software as of June 30, 2018, interviewed Town officials and reviewed pertinent documentation to estimate results of operations and fund balances for the general, highway and sewer district funds through December 31, 2018. We projected 2018 budget to actual comparisons and results of operations based on actual results as of June 30, expected revenues and expenditures, officials' assertions, recent years' trends and specific available documentation.
- We reviewed the Board's use of reserves and compared reserve balances as of December 31, 2017 to officials' plans to determine whether balances were reasonable.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

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**

[www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://www.osc.state.ny.us/localgov/regional_directory.pdf)

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

[www.osc.state.ny.us/localgov/costsavings/index.htm](http://www.osc.state.ny.us/localgov/costsavings/index.htm)

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

[www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm](http://www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm)

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

[www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm](http://www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm)

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

[www.osc.state.ny.us/localgov/planbudget/index.htm](http://www.osc.state.ny.us/localgov/planbudget/index.htm)

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

[www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf](http://www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.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/localgov/finreporting/index.htm](http://www.osc.state.ny.us/localgov/finreporting/index.htm)

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

[www.osc.state.ny.us/localgov/researchpubs/index.htm](http://www.osc.state.ny.us/localgov/researchpubs/index.htm)

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

[www.osc.state.ny.us/localgov/academy/index.htm](http://www.osc.state.ny.us/localgov/academy/index.htm)

## Contact

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