

Forks Fire District #3

Financial Planning

MAY 2018



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

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Report Highlights

Forks Fire District #3

Audit Objective

Determine if the Board properly manages fund balance.

Key Finding

- The Board did not adopt financial plans for the maintenance of a reasonable level of fund balance, the funding and use of reserves and a multiyear financial plan.

Key Recommendations

- Adopt financial plans for the maintenance of a reasonable level of fund balance, the funding and use of reserves and a multiyear financial plan.
- Consult with the District's attorney and ensure the capital reserve funds are properly established.

District officials generally agreed with our recommendations and indicated they planned to initiate corrective action. Appendix B includes our comment on the District's response.

Background

The Forks Fire District #3 (District) is a district corporation of the State, distinct and separate from the Town of Cheektowaga in Erie County.

The District is governed by an elected five member Board of Fire Commissioners (Board). The Board is responsible for the District's overall financial management and safeguarding its resources. The Treasurer acts as the District's chief fiscal officer and is responsible for receiving, disbursing and accounting for funds; preparing annual financial reports; and meeting any other reporting requirements.

The District's budget is funded primarily by real property taxes.

Quick Facts

2018 Budgeted Appropriations	\$626,325
2018 Real Property Tax Levy	\$625,474

Audit Period

January 1, 2016 – January 12, 2018

Financial Planning

How Should the Board Manage Fund Balance?

The Board should adopt financial plans for the maintenance of a reasonable level of fund balance and for the funding and use of reserves. When determining the amount of fund balance to retain from year to year, the Board should consider factors such as the timing of receipts and disbursements and that the bulk of District revenues from the real property tax levies are received early in the fiscal year. The Board should also adopt a multiyear financial plan that addresses the District's operational and capital needs. Multiyear planning can be a vital tool to set long-term priorities and work toward goals. The Board should use these plans when it prepares the annual budget to ensure that fund balance is consistently maintained at a reasonable level and to help taxpayers and District officials see the impact of the fiscal decisions of District officials over time.

The Board Did Not Adopt Financial Plans

The Board did not adopt a financial plan for the maintenance of a reasonable level of fund balance or for the funding and use of reserves. As of December 31, 2017, unrestricted fund balance was 9 percent of 2018 budgeted appropriations.

In addition, the District maintained two capital reserves: an equipment reserve and a building reserve. Both capital reserves have been in place for over 15 years. Officials indicated that the equipment reserve was for the purchase of major equipment such as fire trucks and chief's vehicles while the building reserve is meant for building improvements.

New York State General Municipal Law authorizes fire districts to create 'specific'¹ and 'type'² capital reserve funds. The District's reserves appear to be 'type' capital reserve funds. However, District officials did not provide us with the resolutions³ which established the reserves or any other formal written plans for the funding and use of the reserves. Without an appropriate plan in place, it is possible the Board could be overfunding the capital reserves.

1 A board resolution establishing a capital reserve fund for a specific improvement or the acquisition of a specific item(s) equipment capital reserve must state the estimated maximum cost of the improvements or item(s) of equipment.

2 A board resolution establishing a capital reserve fund for a type of improvement or equipment is not required to state an estimated maximum cost of the improvement or equipment.

3 Effective January 1, 2007, the establishment of a capital reserve fund (either 'specific' or 'type') by a fire district is subject to a mandatory referendum. Prior to that time, 'specific' or 'type' capital reserve funds were established by board resolution, with the establishment of 'specific' reserve funds being subject to permissive referendum.

From January 1, 2016 to December 31, 2017, the reserve balances increased by \$470,000.⁴ The District funded the reserves from budgeted appropriations and added more funds near fiscal year end from the annual operating surplus. The District's 2018 adopted budget included funding of \$150,000 for the equipment reserve and \$20,000 for the building reserve. In total, these amounts represent 27 percent of 2018 budgeted appropriations.

The District's real property tax levy has increased by \$35,500 from 2016 to 2018 (6 percent). The District also realized an operating surplus in 2016 (\$112,755) and 2017 (\$61,500).⁵ Although the capital reserves make up a significant amount of the total fund balance, the Board has not adopted a multiyear financial plan to address the District's operational and capital needs. By adopting a multiyear financial plan, District officials will be able to better demonstrate to taxpayers the reasons for any tax increases and why operating surpluses are used to fund reserves beyond the amounts included in the adopted budget.

What Do We Recommend?

The Board should:

1. Adopt financial plans for the maintenance of a reasonable level of fund balance, the funding and use of reserves and a multiyear financial plan.
2. Consult with the District's attorney and ensure the capital reserve funds are properly established and align with the District's capital needs.

⁴ As of December 31, 2017, the balance of the equipment reserve was \$820,614, and the building reserve was \$173,381.

⁵ In 2016, the District transferred an additional \$80,000 of the surplus to the equipment reserve. In 2017, the District transferred an additional \$30,000 of the surplus to the equipment reserve and \$20,000 to the building reserve.

Appendix A: Response From District Officials

Forks Fire District No. 3 Town of Cheektowaga

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Cheektowaga, NY 14227

Phone: (716) 683-8688

Fax: (716) 683-0921

April 23, 2018

Jeffrey Mazula
Office of the NYS Comptroller
295 Main Street (Suite 1032)
Buffalo, NY 14203

Dear Mr. Mazula:

Please allow this letter to serve as the Response from District Officials regarding the recent audit of the above-referenced fire district, as set forth in a draft Report of Examination (2018-M20). At the outset, I would like to thank the Comptroller's office for spending a significant amount of time and effort auditing over two years of financial records, and for confirming that the District's resources are being deployed in both a fiscally prudent and honest manner.

The auditor's office, according to the draft Report of Examination, found only one minor issue with the District's finances: the District has two capital reserve funds for multi-year expenses that were established without a Board resolution or permissive referendum. One of these funds is for building improvements to the District's headquarters; the other is for the purchase of equipment (more specifically, the District is currently involved in purchasing two new fire trucks).

The district has had a long-term financial plan in place for several years, and that same long-term plan spans over the next several years. The District at all times has carefully hewn to that long-term plan. The draft Report of Examination determined that there were no resolutions responsive to the two special funds, nor was a permissive referendum held (as required for establishment of any special fund after January 1, 2007).

To correct this state of affairs, the Board shall, at or around its annual organizational meeting, hold a special election in accordance with N.Y. General Municipal Law section 6-G; such election shall be held in the manner provided for in section 179 of the N.Y. Town Law. At this special election, the Board shall hold a permissive referendum to be voted upon by the District's electors.

The plan set forth in this document. If you need any further information, clarification, or specification regarding these issues, please do not hesitate to contact us at the above telephone number. Thank you very much.

Very truly yours,

Jeffrey Place
Chair, Board of Commissioners

See Note 1 Page 5

Appendix B: OSC Comment on the District's Response

Note 1

The Board did not adopt a written long-term financial plan or provide one to us during the audit.

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 District officials to gain an understanding of financial policies and procedures.
- We reviewed District accounting records, including general ledgers, cash receipts and disbursements journals, audited financial statements and bank records, and assessed fund balance and capital reserves.
- We reviewed the 2016, 2017 and 2018 adopted budgets.

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.

The Board has the responsibility to initiate corrective action. Pursuant to Section 181-b of the New York State Town Law, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and forwarded to our office within 90 days. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year.

Appendix D: Resources and Services

Regional Office Directory

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

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

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

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

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

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

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

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

Contact

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

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