

# Town of Nichols

## Financial Management

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**MARCH 2018**

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

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# Report Highlights

## Town of Nichols

### Audit Objective

To determine if the Board adequately managed the town-wide fund balance levels.

### Key Findings

- Actual revenues exceeded budgeted amounts by an annual average of \$418,000 and budgeted appropriations exceeded expenditures by an annual average of \$203,000.
- Town-wide (TW) fund balance increased by \$1 million between 2014 and 2016.
- Town officials have not developed multiyear financial or capital plans or a fund balance policy.

### Key Recommendations

- Adopt budgets that include realistic estimates for revenues and expenditures.
- Reduce the amounts of town-wide fund balance and use the excess funds as a financing source for either one time expenditures or to improve the town's infrastructure.
- Develop and adopt a fund balance policy and comprehensive multiyear financial and capital plans.

Town officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

### Background

The Town of Nichols (Town) is located in Tioga County.

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

#### Quick Facts

Population	2,525
2017 TW Appropriations	\$1 million
2017 Projected Gaming Revenues	\$956,470

### Audit Period

January 1, 2016 – September 17, 2017

We extended our audit period back to January 1, 2014 to gain an understanding of fund balance management.

# Town-Wide Fund Balance Management

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Located within the Town is a Gaming Casino (Casino) which initially offered harness racing, simulcast betting and video lottery terminals. In 2014, the Town began receiving gaming revenues. In 2016, the Casino was awarded a new gaming license to offer gaming tables. This included a \$1 million license fee which the Town received, and also increased the quarterly gaming revenue payments.

## How Does a Board Effectively Manage Fund Balance?

The Board may retain a reasonable portion of fund balance for unforeseen circumstances and to provide cash flow to compensate for timing differences between when revenues are received and expenditures are made. It is important for the Board to plan for the future by setting adequate long-term priorities and goals. 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. Once established, plans should be monitored and updated on a continual basis to ensure that changing needs and goals are included.

A fund balance policy, which provides guidance on how fund balance will be used, is an important component of any multiyear financial plan. The Board can legally set aside or reserve portions of fund balance to finance future costs for a variety of purposes (e.g., capital projects), which should be considered when preparing multiyear financial plans.

## The Board Allowed Fund Balance to Accumulate

The Board did not effectively manage TW fund balance levels. From 2014 through 2016, actual revenues exceeded actual expenditures by a total of nearly \$148,000 (or 6 percent).<sup>1</sup> Each year, the adopted budgets included planned deficits averaging \$573,000.<sup>2</sup> For 2017, we project a surplus of more than \$665,000 while the adopted budget planned for a deficit of more than \$643,000. As a result, the TW fund balance is excessive and will continue to increase unless the Board takes action.

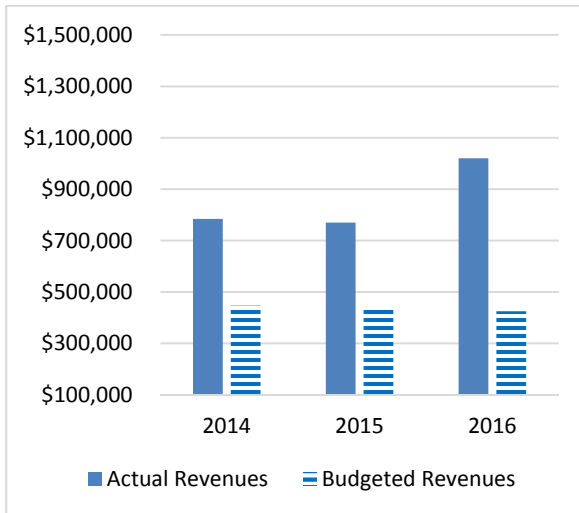
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<sup>1</sup> We excluded disaster recovery revenues and the \$1 million casino licensing fee because officials could not have anticipated the amounts.

<sup>2</sup> We excluded disaster recovery expenditures because officials could not have anticipated the cost.

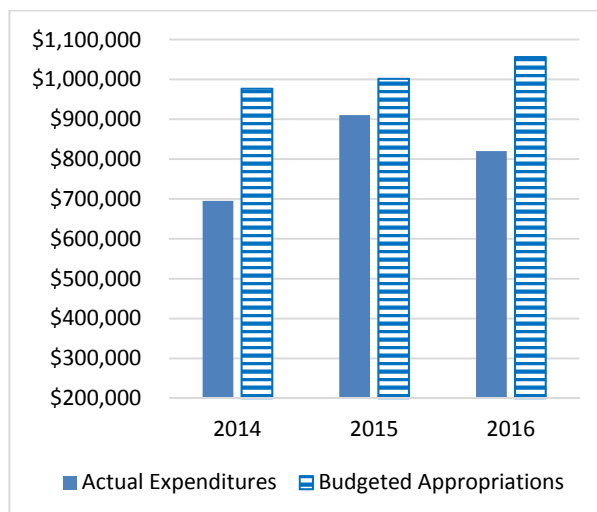
**FIGURE 1**

**Town-Wide Revenues**



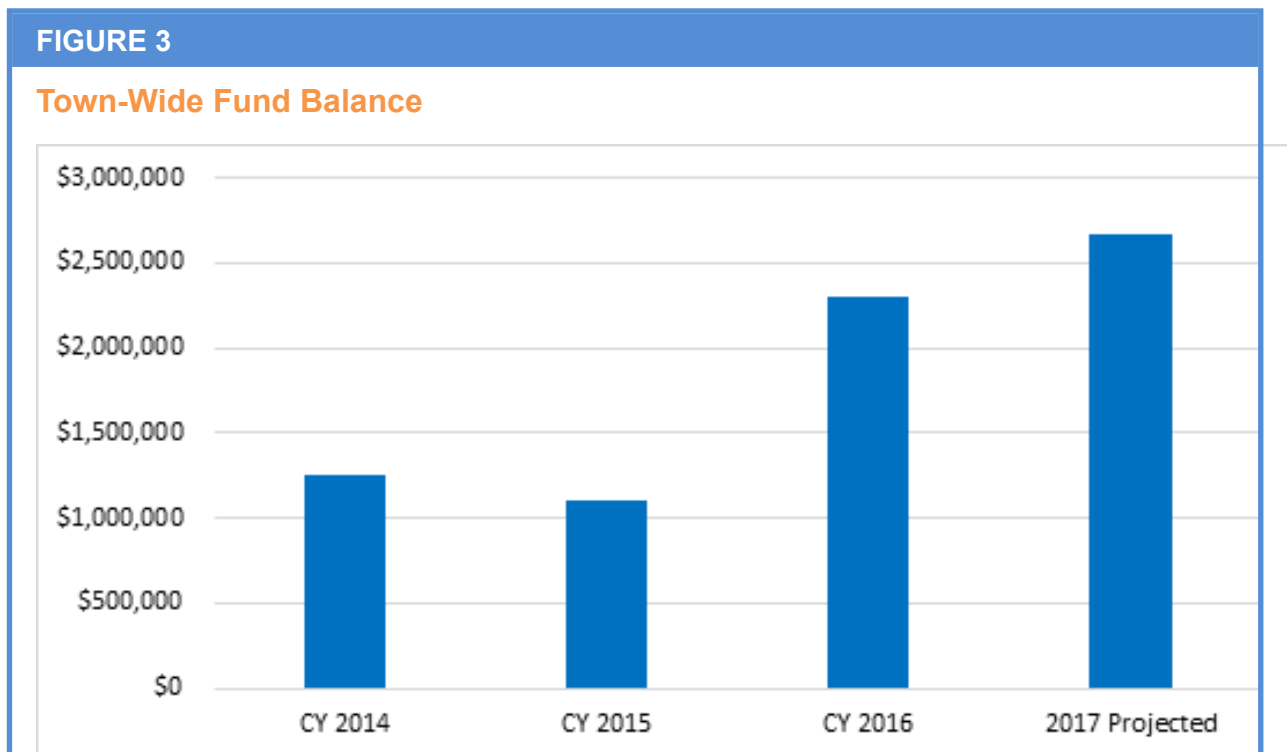
**FIGURE 2**

**Town-Wide Expenditures**



The majority of the operating surpluses occurred because the Board did not develop sound budget estimates for either revenues or expenditures, and also received significant new revenues for gaming-related revenues from the Casino. These gaming-related revenues, totaling almost \$500,000, were not included in the Town's budget estimates. Officials told us they did not believe in the reliability of the gaming-related revenues, and therefore, did not include them in the budgets.

In total, between 2014 and 2016, the Town received \$1.26 million (or 95 percent) more than was estimated in the adopted budgets, averaging \$418,000, and actually spent \$609,000 less (or 20 percent) than anticipated, averaging \$203,000. Based on historic spending levels, the Town's TW fund balance could cover more than two years of expenditures. In fact, the 2017 quarterly gaming-related revenues alone represent 4.2 years of TW real property tax levies.<sup>3</sup>



The Board attempted to reduce TW fund balance in 2017 by using gaming revenues to purchase equipment totaling \$500,000, and a building and land totaling \$250,000.

<sup>3</sup> Based on 2017 TW real property tax levy.

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## **The Board Had Not Developed Long-Term Financial Plans**

The Board needs to create long-term capital and financial plans that set forth the Town's long-term goals. A fund balance policy, along with reserve establishment and use, should be included in the plans. With the increased casino revenues, it is imperative that the Board formulates a plan for its use, such as funding reserves for capital improvement projects and equipment needs. With a fund balance policy in place, the Board can plan to use the excess funds to lower taxes.

The Board's budgeting practices, combined with excessive fund balance levels, places an unnecessary tax burden on Town residents. The establishment of multiyear plans, reserve funds and a fund balance policy would provide more transparency to Town residents on the Board's strategy for addressing the excessive fund balance.

## **What Do We Recommend?**

The Board should:

1. Adopt budgets that realistically reflect the Town's operating needs based on historical trends or other known trends.
2. Reduce the amounts of TW fund balance and use the excess funds as a financing source in a manner that benefits Town residents. Such uses could include, but are not limited to:
  - Funding one-time expenditures;
  - Funding needed reserves; and
  - Reducing real property taxes.
3. Develop and adopt a comprehensive multiyear financial and capital plan to establish the goals and objectives for funding long-term operating and capital needs. These plans should be monitored and updated regularly.
4. Adopt a comprehensive fund balance policy that addresses its budgeting practices and establishes the levels of fund balance to be maintained.

# Appendix A: Response From Town Officials

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## TOWN OF NICHOLS

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Nichols, New York 13812  
(607)-699-3110

Kevin Engelbert, Supervisor  
Karen Hunsinger, Town Clerk

February 20, 2018

Office of the New York State Comptroller  
Division of Local Government and School Accountability  
110 State Street, 12<sup>th</sup> Floor  
Albany, NY 12236

To Whom It May Concern:

The Town of Nichols will use our response to the draft audit to further explain our situation and to address the recommendations made.

While numbers can tell a lot of the story regarding a town's financial position and approach to sound financial management, they don't always represent the entire picture. The audit looked at financials from 2014 to the present, but you have to go back 30 years to get an accurate idea of why the Town Board has adopted such a conservative approach to budgets.

The town has always struggled to provide services while keeping property taxes at a reasonable level since the previous supervisor, who served the town for 24 years, inherited a huge debt and large budget deficits. With the loss of jobs in the area and a steady to falling population in town, over half of the town's school age children qualify for free meals at the local school district. The previous supervisor set a plan in place to be very conservative in preparing town budgets, a plan which I agree with and have continued to follow.

Another factor that influences the approach to formulating our annual budgets involves weather related disasters, mainly flooding. Three times in the last 11 years Nichols has suffered severe damage to our roads, with the latest event taking place in July 2017. The town will have spent approximately \$400,000.00 by the time the damages are completely dealt with. If the budgets weren't so conservative, I would have had to borrow funds rather than draw from reserves. Due to the weather disaster in 2017, the Town Highway Superintendent canceled all the paving projects that were planned and his crew spent the rest of the year dealing with damage done by the storm. As a result, far more money was carried over than budgeted, but that money will be spent on improving roads in 2018.

Currently, the town's share of residents' property taxes remains very low: less than 7% for residents in the Owego/Apalachin School District, and approximately 15% for residents in the Tioga Central School District. The Town Board has had some residents suggest raising property taxes slightly and putting more money into upgrading our roads. The board takes the



(2)

responsibility of managing the town's finances very seriously, and tries to make decisions in the best interest of all residents.

Lastly, the town's financial situation changed dramatically with the opening of the Tioga Downs casino. The first year of receiving income from our share of the Gross Gaming Revenues was 2017, and the money received was only approximately 60% of their projections. Until a few years have gone by with a stable influx of funds established, it remains in the town's best interest to stay with a conservative approach during the budget process.

With all the previous comments in mind, I will now address the recommendations:

*1. Adopt budgets that realistically reflect the Town's operating needs based on historical trends or other known trends.*

The town's conservative approach to formulating budgets must remain conservative until enough years have passed, with a stable income from Tioga Down's Gross Gaming Revenues established, before I can consider a trend to be in place. I have included a conservative estimate in the 2018 budget regarding income from the GGR, because on a monthly basis as we move through our 2<sup>nd</sup> year of that revenue stream we are receiving less than the amount from corresponding months of the previous year.

*2. Reduce the amounts of TW fund balance and use the excess funds as a financing source in a manner that benefits Town residents. Such uses could include, but are not limited to:*

- *Funding one-time expenditures.*

The town purchased a new tandem axle truck, fully outfitted, and will also purchase a single axle crew-cab truck, also fully outfitted, in 2018. Next year a new piece of construction equipment will be purchased as well.

- *Funding needed reserves.*

The town has outgrown the current town hall, and I have set up a reserve fund for the construction of a new facility. A minimum of \$250,000.00 will be added to the fund until such time enough money has accumulated to build a new town hall and community center without having to borrow.

- *Reducing real property taxes.*

The 2018 Town budget contains a property tax cut of 25%, and if another year goes by with basically the same level of revenues from Tioga Downs GGR, another 25% cut will be enacted in 2019.

*3. Develop and adopt a comprehensive multiyear financial and capital plan to establish the goals and objectives for funding long-term operating and capital needs. These plans should be monitored and updated regularly.*

The town has begun developing a long term capital plan, the first steps being establishing a reserve fund for a new town hall. The town already has an equipment fund, as well as a building fund, in place.

*4. Adopt a comprehensive fund balance policy that addresses its budgeting practices and establishes the levels of fund balance to be maintained.*

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(3)

The Town Board has discussed multi-year plans, reserve funds, and a fund balance policy on numerous occasions. We will continue to have discussions on the matter and will at some point reach consensus on these policies.

To summarize, the Town of Nichols represents an anomaly with regard to most of the towns in New York State. The opening of the Tioga Downs casino, and the resulting influx of money from our share of the Gross Gaming Revenues, has put the town in an enviable financial position, at least for the time being. I, and the Town Board, will continue to develop budgets in a very conservative manner, while at the same time managing town finances safely and in the best interest of all town residents.

Sincerely,

Kevin K. Engelbert

Town of Nichols Supervisor

nichols-supervisor@stny.rr.com

## 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, we performed the following audit procedures:

- We interviewed Town officials to gain an understanding of the budget process and information used when budgets are developed, and to determine whether the Board adopted a fund balance policy or established multiyear financial and capital plans.
- We compared the TW funds' budgeted revenues and appropriations to actual revenues and expenditures for 2014 through 2016 to determine if budgeted revenues and appropriations were realistic.
- We compared budgeted TW funds' balance appropriations to annual results of operations for 2014 through 2016 to determine if budgets called for planned deficits and if fund balance was used as budgeted. We also reviewed ending fund balance amounts to determine if total fund balance increased or decreased over the same period.
- We calculated the percentage of total TW funds' balance to expenditures and determined how many years TW funds balance could cover historical expenditures.
- We reviewed documentation regarding quarterly payments of the Town's local share of gaming revenues.

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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