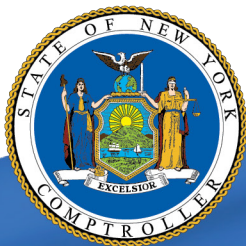


Town of Sharon

Fund Balance

MARCH 2018



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

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Report Highlights

Town of Sharon

Audit Objective

Determine whether the Board ensured that fund balance was reasonable.

Key Findings

- While Town officials have taken some steps to reduce excessive fund balance, town-wide (TW) and town-outside-village (TOV) fund balances continued to grow by 28 and 79 percent, respectively, from 2014 through 2017.
- Budgeted TW and TOV appropriations exceeded expenditures by an annual average of 19 percent and 31 percent, respectively, from 2014 through 2017.
- Town officials have not developed multiyear financial or capital plans or a fund balance policy.

Key Recommendations

- Reduce TW and TOV fund balance by using excess fund balance in a manner that benefits Town residents.
- Adopt budgets that include realistic estimates for expenditures.
- Develop and adopt comprehensive multiyear financial and capital plans and a fund balance policy that establishes the level of fund balance to be maintained.

Town officials generally agreed with our findings and indicated they plan to initiate corrective action. Appendix B includes our comments on issues Town officials raised in their response.

Background

The Town of Sharon (Town) is located in Schoharie County.

The Town is governed by an elected Town Board (Board), which is 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 operations, including adopting the annual budget and establishing financial policies. The Supervisor serves as the chief executive, chief fiscal and budget officer.

Quick Facts

Population	Approximately 1,800
2018 Tax Levy	Approximately \$429,000
2018 Operating Funds Budgeted Appropriations	Approximately \$916,500

Audit Period

January 1, 2016 – December 31, 2017

We extended our audit period back to January 1, 2014 to analyze financial trends.

Fund Balance

How Can the Board Ensure Fund Balance is Reasonable?

A board is responsible for making financial decisions that are in the best interest of the town and its residents. A board may retain a reasonable portion of fund balance for unforeseen circumstances and to provide cash flow – for example, to compensate for timing differences between when revenues are received and expenditures are made. Further, a multiyear financial plan helps a board assess alternative approaches to financial issues, such as accumulating fund balance, obtaining financing or using surplus funds to finance annual operations. A fund balance policy, which provides guidance on how fund balance will be used, is an important component of a multiyear financial plan. A board can legally set aside or reserve portions of fund balance to finance future costs for a variety of purposes (for example, capital projects or equipment purchases), which should be considered when preparing multiyear financial plans. Sound budgeting practices help ensure that estimates of revenues and expenditures are reasonable and based on historical or known trends.

Fund Balance Levels Have Continued to Increase

The Board could improve its fund balance management. While Town officials have taken steps to reduce excessive fund balance levels over the last several years, town-wide (TW) and town-outside-village (TOV) fund balances grew by 28 percent and 79 percent, respectively, from 2014 through 2017. As of December 31, 2017, TW fund balance exceeded 300 percent of annual TW expenditures (Figure 1), while TOV fund balance exceeded 200 percent of annual TOV expenditures (Figure 2).

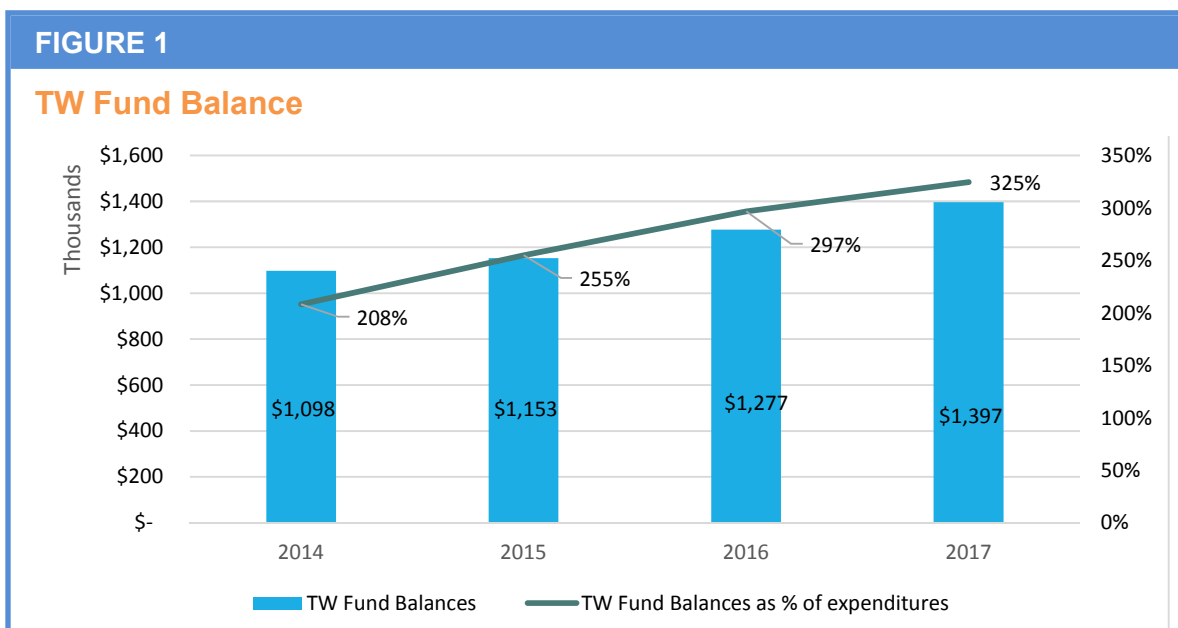
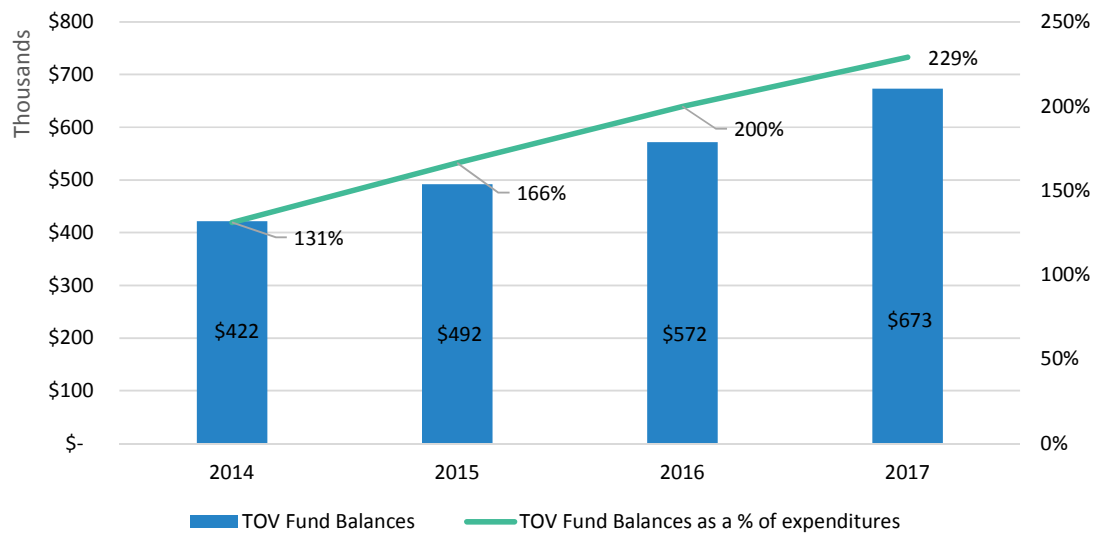
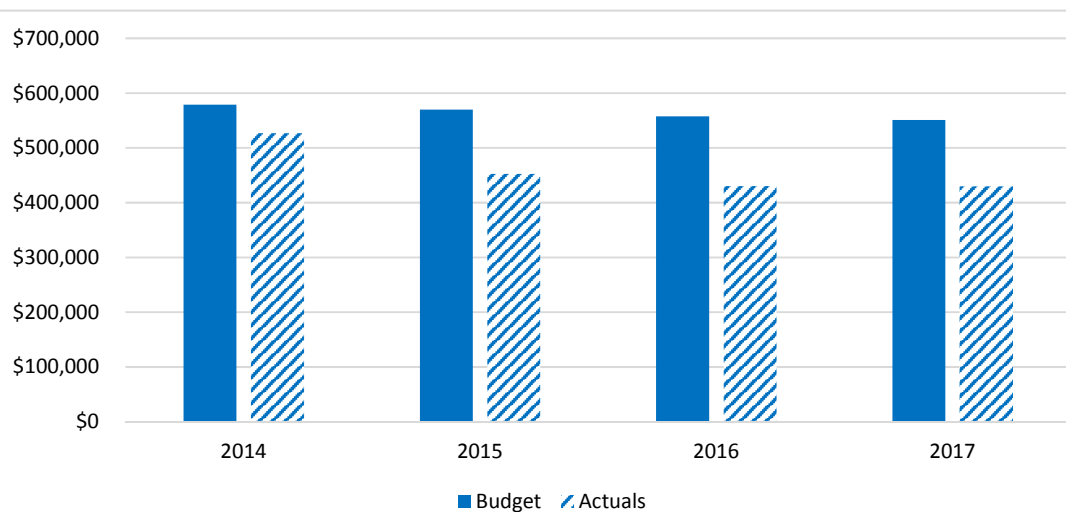
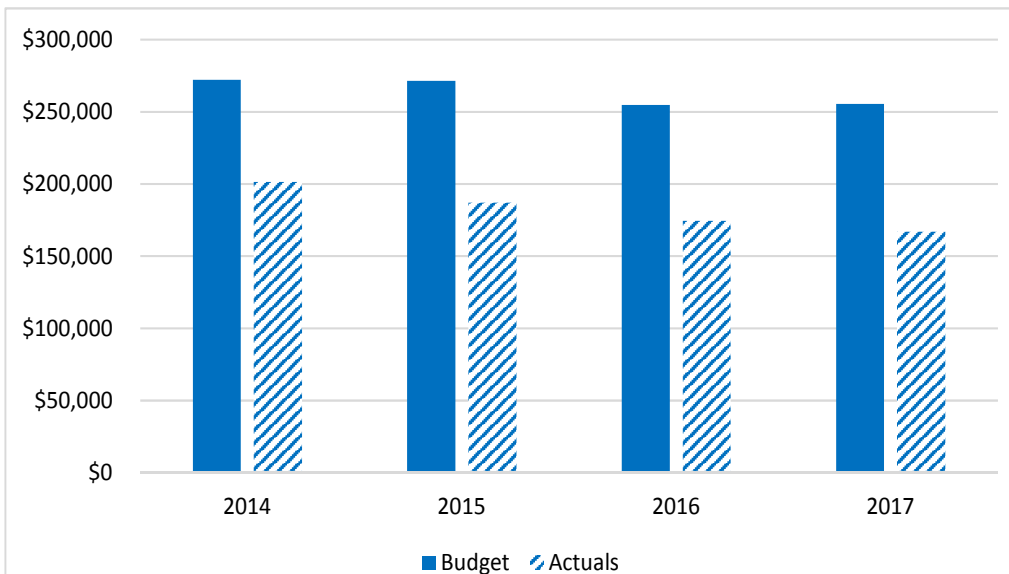


FIGURE 2**TOV Fund Balance**

While revenue variances were generally reasonable, budgeted appropriations exceeded expenditures by an annual average of \$104,500 (19 percent) in TW funds (Figure 3) and \$81,000¹ (31 percent) in TOV funds (Figure 4).

FIGURE 3**Town-Wide Expenditures**

¹ We excluded consolidated local street and highway improvement program revenue and expenditures in the TOV funds from all budget variances because they would offset each other.

FIGURE 4**Town-Outside-Village Expenditures**

The annual average expenditure variances were primarily driven by overestimates of road maintenance (\$66,300 or 38 percent), snow removal (\$40,200 or 27 percent), equipment (\$33,500 or 64 percent) and employee benefits (\$8,600 or 21 percent). While snow removal may be less predictable, road maintenance, equipment and employee benefit expenditures should be easier to predict. Town officials did not consider historical trends when estimating expenditures. Instead, they generally considered the previous years' budgets.

The Town's infrastructure condition is generally very good with little outward appearance of disrepair or significant maintenance needs. The Supervisor told us that the Board discussed constructing a salt shed and purchasing a highway truck that could be financed with the accumulated surpluses. The Board also established a \$150,000 truck reserve and a \$75,000 road reserve in 2017. While these steps may reduce available fund balances, the Board has not developed a fund balance policy or comprehensive multiyear financial and capital plans specifying the Town's objectives and goals for using the funds.

The Board's budgeting practices, combined with maintaining significant fund balance levels, may place an unnecessary tax burden on Town residents. Although the Board reduced TW tax levies by almost \$111,000 (33 percent) and TOV tax levies by almost \$27,000 (11 percent) between 2016 and 2018, fund balance levels continued to increase across the TW and TOV funds. Further, the Town has the highest TW and TOV fund balances as a percentage of expenditures of all other 15

Schoharie County towns, as well as the highest poverty rate.² The Board recently finalized extensions to its payments in lieu of taxes (PILOT) agreements,³ which will increase future revenues by 6 percent from fiscal years 2018 through 2022. When including these PILOT payments, we project that, if the other historical averages of revenues and expenditures continue, the TW and TOV fund balance levels will increase annually, on average, by an additional \$51,500 (4 percent) and \$85,900 (13 percent), respectively, from 2018 through 2022. This highlights the growing need for the Board to take action to manage fund balance levels and to adopt long-term financial and capital plans, a fund balance policy and a reserve policy.

What Do We Recommend?

The Board should:

1. Reduce the amounts of the TW and TOV 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.
2. Adopt budgets that realistically reflect the Town's operating needs based on historical trends or other known trends.
3. Adopt a comprehensive fund balance policy that addresses the Town's budgeting practices and establishes target levels of unassigned and reserved fund balance and how and when reserved funds will be used.
4. Develop and adopt comprehensive multiyear financial and capital plans to establish the goals and objectives for funding long-term operating and capital needs. These plans should be monitored and updated on an ongoing basis.

² The poverty rates were reported by the United States Census Bureau on the American Community Survey Five-Year Estimates for 2011 through 2015.

³ Extensions of PILOT agreements with expected revenues totaling \$1.3 million over the next five years. PILOT payments amounted to 27 percent of total revenues in 2016 and 26 percent of total revenues in 2017.

Appendix A: Response From Town Officials

TOWN OF SHARON

Sandra Manko, Supervisor
PO Box 204
Sharon Springs, NY 13459
Office: 518-284-3010



Barbara Cousineau, Town Clerk/Collector
156 France Street
Sharon Springs, NY 13459
Office: 518-284-3010

March 1, 2018

Office of the New York State Comptroller
Division of Local Government and School Accountability
Binghamton Regional Office
H. Todd Eames, Chief Examiner
State Office Building, Suite 1702
44 Hawley Street
Binghamton, NY 13901-4417

Dear Mr. Eames:

Re: Response to Town of Sharon's Audit Draft Report of February 12, 2018

We were notified by your office on September 28, 2017 that a planned audit would occur for the Town of Sharon. An entrance interview was conducted on October 3, 2017 at the Town Office located at 129 Main Street, Sharon Springs, NY. Present were the Town Supervisor and two auditors from the Office of the State Comptroller. The Audit process concluded with an exit interview on February 15, 2018 with the same parties present. All documents and data including files and records from January 2016 through December 2017 were submitted at their request. The audit period was also extended back to January 1, 2014 to analyze financial records. The auditors also interviewed Town Supervisor, Town Board members, Town Clerk, Town Highway Superintendent, Town Justice, and bookkeeper.

The report states that the Audit Objective was to determine whether the Board ensured that fund balance was reasonable. The key findings of the report states while Town officials have taken some steps to reduce excessive fund balance, town-wide and town-outside village fund balances continued to grow by 28 and 79 percent respectively from 2014 through 2017. The report states that budgeted town-wide and town-outside village appropriations exceeded expenditures by an annual average of 19 percent and 31 percent, respectively, from 2014 through 2017. The report also states that Town officials have not developed multiyear financial or capital plans or a fund balance policy.

The audit report indicates in your opinion the Town's fund balance is too high and should be reduced by various measures including reducing town-wide and town-outside village fund balances by using the excess fund balance in a manner that benefits Town residents, adopt budgets that include realistic estimates for expenditures, and to develop and adopt comprehensive multiyear financial and capital plans and a fund balance policy that establishes the level of fund balance to be maintained.

The Town is financially sound because the five members of the Town Board work as a team to keep spending down and monitor every taxpayer dollar which is spent. Although the Board is bipartisan, politics does not influence board decisions. Decisions made take into consideration what the Board feels is best overall for the Town and the taxpayers. All vouchers and bills are monitored and audited every month to keep spending to a minimum and determine ways to operate in the most efficient and effective way possible. In spite of the fact that the Town has a fund balance, money is not wasted. Several factors have contributed to the current fund balance:

See
Note 1
Page 9

- Money was set aside several years ago for the Tennessee Gas Pipeline lawsuit which later got resolved without having to use the set-aside lump sum amount
- Recent winters were milder than anticipated therefore estimates for salt, sand, overtime, and fuel came in under budgeted amounts
- For the past 2 years, municipalities received extra funds due to severe storms, however, since the money isn't guaranteed, it wasn't put into the budget
- Negotiated several PILOT agreements (WalMart Distribution Center, Tennessee Gas Pipeline, Sharon Springs, Inc., One Energy Renewables/Birdseye Solar) which increased revenues and benefit the Town long term, and ultimately the taxpayer
- After Tropical Storm Lee, Town personnel was used to complete projects to keep costs down
- Equipment funds set aside for new truck, estimated cost of \$250,000
- Building funds set aside for salt shed, estimated cost of \$300,000
- Saved project cost repairs on Bowmaker's Pond Dam through utilizing County DPW Engineer and completing work with Town personnel
- Multiple shared services agreements with Village, County, and nearby Towns which are cost effective (examples: plowing & sanding agreements, sharing of road maintenance equipment, sharing of Internet access)
- Diligent follow-up on paperwork to assure all funds are reimbursed as requested (Youth Commission funds from State, cost sharing with Village and other Towns)
- Grants awarded through Court Administration System provide furniture, equipment & security system
- Switched providers of employee health insurance in order to reduce costs
- Stopped funding health insurance for retired employees as of 8/1/12 on a go-forward basis

See
Note 2
Page 9

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- Turnover of full-time highway workers created a cost-savings in budgeted health insurance and payroll lines
 - Funds set aside for two potential lawsuits (which have since surfaced) with unknown legal costs (Key Farm subdivision and WalMart Distribution Center)
 - Funds necessary to keep under the annual state imposed tax cap
 - In 2016, the County took over maintenance of Town bridges resulting in less Town expenses
 - In 2012, Certificate of Deposits were renewed for 5 years getting highest percentage rate available at 1.8%
 - Town no longer owns the building which houses the Town offices saving operating costs

See Note 3 Page 9

The Town Board feels a substantial fund balance is necessary to cover unanticipated and emergency costs so Town does not have to borrow funds.

The Town is cautious that additional State mandates will affect the Town. When the State reduces expenses it does so by passing unfunded mandates on to the County, which in turn pass them on the local Towns and Villages.

It should also be noted that Town taxes have not increased in years. The amount to be raised by taxes is supplemented by reserve funds so Town taxpayers do not see an increase in taxes.

The auditors found no irregularities during the audit process. This can attributed to a conscientious Town Board who monitor the budget and billing process.

To summarize, the Office of the State Comptrollers' auditors were professional, courteous, and helpful throughout the entire process. They always made sure we understood the process and we felt comfortable asking questions. We gained knowledge and understanding of the audit process and plan to implement several suggestions and recommendations as we move forward.

I can be reached at 518-284-3010 if there are any questions.

Since~~re~~ply,

Sandra R. Manko
Supervisor – Town of Sharon

cc: Town Council – David Cross, Brian Young, Carl Ullman, William Barlow
Town Clerk – Barbara Cousineau

Appendix B: OSC Comments on the Town's Response

Note 1

Many of the factors discussed occurred outside of our audit scope. While we commend Town officials for ensuring money is not wasted, these factors confirm the Board's failure to take sufficient action to plan for future expenses, such as developing a fund balance policy or comprehensive multiyear financial and capital plans.

Note 2

Town officials did not provide evidence of their establishment of a building capital reserve for a salt shed.

Note 3

While it is prudent to keep a reasonable portion of fund balance for unforeseen circumstances, maintaining excessive amounts may place an unnecessary tax burden on Town residents.

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 Town officials, reviewed Board minutes, and reviewed equipment and infrastructure to gain an understanding of the budget process, multiyear financial and capital plans and needs, and the establishment of reserves.
- We analyzed the trend in total fund balance in the TW and TOV funds for 2014 through 2017 and compared the levels to annual TW and TOV fund expenditures.
- We compared the TW and TOV funds' estimated revenues and appropriations to the actual revenues and expenditures for 2014 through 2017 to determine whether total estimated revenues and appropriations were realistic.
- We reviewed the 2014 through 2017 expenditures to determine which expenditure categories contributed the most to the Town's budget-to-actual variances.
- We analyzed the trend in real property tax levies from 2014 through 2018 and significant PILOT revenues from 2014 through 2017.
- We compared the TW and TOV fund balance levels as of December 2016 as a percentage of the actual expenditures, and the poverty rates as reported by the United States Census Bureau on the American Community Survey Five-Year Estimates for 2011 through 2015 to the 15 other Schoharie County towns' fund balance levels and poverty rates.
- We projected revenues and expenditures from 2018 through 2022 to determine the impact on TW and TOV fund balance levels.

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.

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 size of the relevant population and the sample selected for examination.

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 Clerk's office.

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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