

Meridale Rural Fire District

Management of Fund Balance

NOVEMBER 2018



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

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Report Highlights

Meridale Rural Fire District

Audit Objective

Determine whether the Board properly managed fund balance.

Key Findings

- Unassigned fund balance increased from \$66,600 to \$134,300 (102 percent) from 2014 to 2017, which could fund over three years' worth of expenditures.
- On average, actual expenditures were 39 percent less than budgeted appropriations from 2014 to 2017.
- The Board has not established any formal reserves or adopted formal financial plans.

Key Recommendations

- Reduce the amount of unassigned fund balance and use the excess as a financing source to benefit District taxpayers by funding one-time expenditures and needed reserves, paying down debt and reducing real property taxes.
- Adopt realistic budgeted appropriations that reflect the District's operating needs based on historic trends, contracts or other projections.
- Develop and adopt financial plans for the maintenance of a reasonable level of fund balance and the funding and use of reserves.

District officials generally agreed with our findings and recommendations but questioned one issue. Appendix B includes our comment on the issue raised in the District's response.

Background

The Meridale Fire District (District) is a district corporation of the State, distinct and separate from the Town of Meredith in Delaware 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 the development of the annual budget. The Board appoints a Treasurer who is the chief fiscal officer and is responsible for receiving, disbursing and accounting for funds.

Quick Facts

2018 Budgeted Appropriations	\$61,700
2017 Budgeted Appropriations	\$60,700

Audit Period

January 1, 2017 - July 31, 2018. We extended our audit period back to January 1, 2014 to analyze historical financial trends.

Fund Balance

How Should the Board Manage Fund Balance?

It is essential that the board adopt realistic and transparent budgets that finance recurring expenditures with recurring revenues based on historical trends. The board should also formally establish necessary reserves and include funding for these reserves in the budget as appropriate. Furthermore, the board should adopt financial plans that address fund balance levels and the funding and use of reserves. The board should use these plans when developing the annual budget to ensure that fund balance is consistently maintained at reasonable levels. Utilizing these plans should also help district officials and taxpayers see the impact of the board's fiscal decisions over time and ensuring that the amount of real property taxes levied is not greater than necessary.

Fund Balance Increased Due to Unrealistic Budgets

The Board could improve the management of fund balance. Unassigned fund balance increased from \$66,600 to \$134,300 (102 percent) from 2014 to 2017, which left the District with enough fund balance to cover over three years' worth of expenditures. This increase was due to unrealistic expenditure estimates. On average, from 2014 to 2017, actual expenditures were 39 percent less than amounts budgeted. These variances occurred mainly because District officials overestimated equipment repairs and purchases by over \$8,400 (79 percent) and pager and radio repairs and purchases by over \$4,400 (89 percent) in each of those years. In addition, building repairs and maintenance were overestimated by almost \$7,000 (93 percent) in 2014 through 2016 and utilities were overestimated by almost \$5,000 (49 percent) in 2015 through 2017. We project that unassigned fund balance will increase another \$19,500, to over \$153,800, by fiscal year-end 2018 due to similarly overestimated expenditures.

District officials are not developing the budgets based on historical trends. They told us that they determine the maximum allowable tax levy amount based on the tax cap¹ and budget the expenditures up to that amount. Furthermore, the Board has not established any formal reserves or adopted financial plans outlining a reasonable level of fund balance to be maintained or the funding and use of reserves. However, District officials informed us they were saving for capital improvements to the firehouse and future equipment purchases, as needed. Additionally, they anticipate purchasing new radios because of the County's new 911 system.

¹ The State Legislation and the Governor enacted Chapter 97 of the Laws of 2011 that established a tax levy limit for local governments, which precludes local governments from adopting a budget with a tax levy that exceeds the prior year's tax levy by more than 2 percent or the rate of inflation, whichever is less, unless the fire district's governing board adopts a resolution to override the tax levy limit. This law took effect beginning in 2012.

With the increasing fund balance levels and no formal plans in place, it is difficult for the Board to demonstrate to taxpayers that the budgeted tax levy increases totaling 8 percent (\$4,100) from 2014 through 2018 were in their best interest.

What Do We Recommend?

The Board should:

1. Reduce the amount of unassigned fund balance and use the excess as a financing source to benefit District taxpayers. Such uses could include, but are not limited to:
 - a. Funding one-time expenditures,
 - b. Funding needed reserves,
 - c. Paying off debt, and
 - d. Reducing real property taxes.
2. Adopt realistic budgeted appropriations that reflect the District's operating needs based on historic trends, contracts or other projections.
3. Develop and adopt financial plans for maintaining a reasonable level of fund balance and the funding and use of reserves.

Appendix A: Response From District Officials

MERIDALE RURAL FIRE DISTRICT
Board of Commissioners
P.O. Box 104
Meridale, N.Y. 13806

Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, New York 13901-4417
Attn: Ann Singer

Re: Unit Name: Meridale Rural Fire District
Audit Report Title: Management of Fund Balance
Audit Report Number: 2018-178

The Fire Commissioners do agree with the findings of the audit. With such a small fire district we have concerns about setting up reserves. The Board has been instructed that once a reserve account is set up it can be used ONLY for that purpose. For example: The District needs to buy a new truck and with our small budget we do not have enough funds in the equipment reserve account. Will we have to take a bank loan when we have funds available in other reserve accounts?

See
Note 1
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This audit response will also serve as our corrective action plan.

Corrections Planned: The Board will:

- Use purchase/spending history in all categories to budget more realistically. Will be implemented for the next budget (2020).
- Set up reserve accounts, from our unassigned fund balance, for specific expense lines in the budget. For example: Building repair, purchases and maintenance reserve; Radio, pager, repair, purchases and maintenance reserve; Equipment repair, purchases and maintenance reserve.
- Setting up the reserve accounts will require the Board to create a financial plan. Each reserve will have to be assessed and receive initial funding.
- Work with the Secretary/Treasurer to set up additional lines in the budget for reserves and format the accounting process to be used.
- Changes will be implemented during the coming year (2018-2019) in preparation for next year's budget.

Implementation Concerns: As stated in paragraph one, we are a small fire department and the cost of equipment is astronomical. We are concerned that even with our best financial planning the equipment reserve may not be large enough to purchases what is required.

The above Audit Response and Corrective Action Plan has been approved by the full Board of five (5) Fire Commissioners at the meeting on November 6, 2018.

Implementation Date: June, 2020.

Signed:

Paul M. Johnson, Chairman

11-7-18
Date

Appendix B: OSC Comment to the District Response

Note 1

Subject to referendum requirements, fire districts generally may transfer funds between properly established capital reserves. The development of adequate financial plans regarding fund balance and reserve levels should help with these decisions.

See our Local Government Management Guides, "*Multiyear Financial Planning*" <https://www.osc.state.ny.us/localgov/pubs/lgmg/multiyear.pdf> and "*Reserve Funds*" <https://www.osc.state.ny.us/localgov/pubs/lgmg/reservefunds.pdf>

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 the budget development process and the documents used. We also made inquiries to determine whether the Board had established any reserve funds and adopted any formal financial plans.
- We analyzed the fund balance trends and determined the number of years the fund balance levels could cover actual expenditures for 2014 through 2017.
- We calculated the results of operations and the fund balance for 2018 by using actual revenues and expenditures as of June 30, 2018 to project the year-end revenues and expenditures.
- We compared budgeted appropriations to actual expenditures for 2014 through 2017 to determine the expenditures contributing to the increase in the fund balance. We also reviewed the 2018 adopted budget to determine whether the Board made adjustments to the expenditures identified as the cause of the increases.
- We reviewed the District's tax levies for 2014 through 2018 to determine the trend in the taxes levied and to determine whether the levies were within the tax cap limitations.

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 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#lgmg

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

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

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

www.osc.state.ny.us/localgov/index.htm

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

BINGHAMTON REGIONAL OFFICE – Ann C. Singer, Chief Examiner

State Office Building, Suite 1702 • 44 Hawley Street • Binghamton, New York 13901-4417

Tel (607) 721-8306 • Fax (607) 721-8313 • Email: Muni-Binghamton@osc.ny.gov

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