

Town of Preston

Financial Management

JULY 2018



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

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Report Highlights

Town of Preston

Audit Objective

Determine whether the Board established a fund balance and reserve policy and multiyear financial and capital plans to address the Town's operational and capital needs.

Key Findings

- From January 1, 2015 through December 31, 2017, total fund balance increased in the general fund by \$94,855 (49 percent). Year-end 2017 fund balance was nearly four times the 2018 general fund tax levy and 183 percent of 2018 budgeted appropriations.
- During the same period, total fund balance in the highway fund increased by \$130,589 (58 percent). Year-end 2017 fund balance was 150 percent the 2018 highway fund tax levy and 96 percent of 2018 budgeted appropriations.
- Although the Town has projects that will require significant funding in the coming years, Town officials have not developed fund balance or reserve policies or multiyear financial or capital plans.

Key Recommendations

- Adopt budgets that include realistic estimates for revenues and expenditures.
- Develop and adopt a fund balance and reserve policy that establishes the level of fund balance and reserves to be maintained.
- Develop and adopt a comprehensive multiyear financial and capital plan.

Town officials agreed with our findings and indicated they plan to initiate corrective action.

Background

The Town of Preston is located in Chenango 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 and chief fiscal officer. The Town's Highway Superintendent, a separately elected position, is primarily responsible for the maintenance and repair of Town roads and bridges.

Quick Facts

Population	1,044
2018 General Fund Budgeted Appropriations	\$157,127
2018 Highway Fund Budgeted Appropriations	\$367,796
2018 Real Property Tax Levy	\$312,100

Audit Period

January 1, 2015 – December 31, 2017

Financial Management

Why Are Fund Balance and Reserve Policies and Multiyear Plans Important?

A board is responsible for making financial decisions that are in the best interest of the town and its taxpayers. Town officials can legally set aside or reserve portions of fund balance to finance future costs for a specific purpose. Town officials may also appropriate a portion of fund balance to help finance the subsequent year's budget. Adopting a fund balance and reserve policy that addresses the appropriate levels of fund balances and reserves to be maintained from year-to-year provides the board with guidelines to use during the budget process. If fund balance levels become excessive, funds that could benefit the town are not being used, thereby placing an unnecessary burden on town taxpayers.

The board should adopt a fund balance and reserve policy to establish the levels of fund balance to be maintained and the reserves to be funded and used. In addition, the board should create comprehensive multiyear financial and capital plans that set long-term objectives and goals. Long-term planning, coupled with prudent fund balance management, helps ensure that sufficient funding will be available to finance current and long-term obligations and address unexpected occurrences without relying on short-term borrowing or depleting fund balance. These plans and policies are an important planning tool for the board and an effective means of communicating the board's goals and priorities to town taxpayers.

The Board Did Not Establish a Fund Balance and Reserve Policy or Multiyear Plans

The Board did not adopt a fund balance and reserve policy to establish the levels of fund balance to be maintained and the reserves to be funded and used. In addition, the Board did not create comprehensive multiyear financial and capital plans that set long-term objectives and goals.

From January 1, 2015 through December 31, 2017, total fund balance increased in the general fund by \$94,855 (49 percent) and highway fund by \$130,589 (58 percent). Each year during this period, the Board appropriated \$32,000 of fund balance in the general fund and \$31,000 of fund balance in the highway fund. However, the Town experienced operating surpluses each year, and the appropriated fund balance was not needed to finance operations (Figure 1).

Figure 1: Fund Balances

General Fund			
	2015	2016	2017
Beginning Fund Balance	\$193,376	\$215,663	\$239,453
Results of Operations	\$22,287	\$23,790	\$48,778
Ending Fund Balance	\$215,663	\$239,453	\$288,231
Ensuing Year's Appropriations	\$160,171	\$163,915	\$157,127
Ending Fund Balance as a Percentage of Ensuing Year's Appropriations	135%	146%	183%
Highway Fund			
	2015	2016	2017
Beginning Fund Balance	\$223,747	268,303	\$326,187
Results of Operations	\$44,556	\$57,884	\$28,149
Ending Fund Balance	\$268,303	\$326,187	\$354,336
Ensuing Year's Appropriations	\$362,431	\$362,431	\$367,796
Ending Fund Balance as a Percentage of Ensuing Year's Appropriations	74%	90%	96%

This occurred because of the Board's conservative budgeting practices. For example, over the last three years, general fund expenditures were \$31,463 (6.6 percent) less than the Board-adopted budgets and highway fund expenditures were \$83,458 (7.7 percent) less than budgeted amounts. Moreover, general fund revenues exceeded Board-adopted budgets by \$159,572 (41.7 percent), and highway fund revenues exceeded budgeted amounts by \$139,950 (14 percent) over this period. These revenue variances were primarily driven by underestimating sales tax totaling \$160,000 (154 percent) over the three-year period, and Consolidated Local Street and Highway Improvement Program (CHIPS) totaling \$132,000 (68 percent) over the three-year period.

According to Town officials, they budget conservatively for sales tax and CHIPS revenues because they do not know what they will receive for sales tax, and the State contemplated reducing CHIPS funding in the past. However, over the last three years, the Town received an average of \$88,000 in sales tax revenues (versus an average budgeted amount of \$34,667) and \$109,000 in CHIPS revenues (versus an average budgeted amount of \$65,000). Town officials increased revenue estimates in the 2018 budget for sales tax to \$56,000 and CHIPS to \$100,000, and did not appropriate any fund balance in either the general or highway fund. However, while the highway fund's tax levy remained relatively flat from 2015 through 2018, the general fund's tax levy increased each year ranging from 2.8 percent to 8.6 percent.

In addition, Town officials have not established any reserves to finance future financial or capital needs. Town officials told us they have concerns about recent and upcoming financial and capital needs. For example:

- In 2018, Town officials ordered a replacement highway plow truck at a cost of approximately \$204,000, which they plan to purchase with CHIPS revenues (\$81,000) and unassigned fund balance (\$123,000).
- The current Town hall/highway garage is aging and in need of improvement or replacement. Town officials have not yet determined how much this will cost.
- The Town is solely responsible for maintaining four bridges/culverts because they do not meet the criteria¹ to be maintained by the County. While the bridges/culverts are not currently in disrepair, we estimate that it would cost the Town between \$73,000 and \$132,000 to rehabilitate or between \$108,000 and \$194,000 to replace one of the four bridges/culverts, based on estimated 2016 costs (Appendix A).

Town officials have identified financial and capital needs. However, without formal long-term capital plans and reserves in place, the Board increases the risk that money will not be available when expenditures become necessary or that more taxes than necessary will be levied when adequate financial resources are already available. Moreover, raising real property taxes and increasing fund balance, without formal plans, does not provide transparency to Town taxpayers.

What Do We Recommend?

The Board should:

1. Use surplus funds as a financing source for:
 - a. Funding one-time expenditures
 - b. Funding needed reserves
 - c. Reducing property taxes.
2. Adopt budgets that realistically reflect the Town's operating needs based on historical trends or other known facts.
3. Adopt a comprehensive fund balance and reserve policy that addresses the Town's budgeting practices and establishes the levels of fund balance and reserves to be maintained.

¹ In 1959, the County passed a resolution to take over maintenance of bridges within County limits that were 25 feet in length or longer. The Town has four bridges/culverts that are less than 25 feet in length.

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4. 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 on an ongoing basis.

Appendix A: 2016 Estimated Bridge Rehabilitation or Replacement Costs

Figure 2: 2016 Estimated Bridge Rehabilitation or Replacement Costs^a

Bridge Location	Length (Feet)	Width (Feet)	Square Feet	Estimated Replacement Cost per Square Foot	Estimated Replacement Cost	Estimated Rehabilitation Cost (68 percent of Replacement Cost)
Stafford Road	18	40	720	\$270	\$194,400	\$132,192
Turner Street (South)	21	34	714	\$270	\$192,780	\$131,090
Griffin Road	14	29	406	\$270	\$109,620	\$74,542
Turner Street (North)	20	20	400	\$270	\$108,000	\$73,440
Totals	n/a	n/a	2,240	\$270	\$604,800	\$411,264

^a We used the estimated 2016 cost per square foot for New York found in the Federal Highway Administration's National Bridge Inventory to calculate an estimated cost to replace or rehabilitate each bridge. See Appendix C for detailed methodology.

Appendix B: Response From Town Officials

Town of Preston
Peter C. Flanagan, Supervisor
299 Preston Center Road
Oxford, New York 13830

Jennifer L. Funk, Town Clerk
Sheri Howe, Town Board
David L. Dunckel, Town Board
Jonathan Dunckel, Town Board
V. Peter Mason, Town Board

The Town Board is in general agreement with what has been reported in the draft audit. Certainly the numbers are indisputable although we feel that the small scale of both the General and Highway Budgets should be noted when expressing the percentage increases in fund balances and available fund balance vs. budgeted appropriations.

There are indeed significant Town projects and exposures going forward. The Board has three members with over 25 years of service who have followed well understood fund balance and reserve policies but since these policies are not specifically stated in writing they will be articulated in the Corrective Action Plan for the sake of clarity and public transparency.

The unofficial “policy” has been for the Town to remain debt free and maintain maximum financial flexibility by carrying significant fund balances, particularly on the General side of the ledger. Town law allows money in the General Fund to be used for either General or Highway purposes. The current fund balances are viewed by the Board as prudent rather than excessive.

The Board has always budgeted carefully for actual expenditures and potential exposures. We acknowledge budgeting very conservatively for revenues as they are sometimes uncertain and often untimely.

The Board estimates that a minimum of \$150,000 in fund balance is needed each year prior to the receipt of any revenues to finance normal Highway operations. This amount represents 41% of 2018 Highway appropriations. In order to receive CHIPS revenues, the Town must spend the money first. The CHIPS revenues typically arrive in the last 2 weeks of our fiscal year. General municipal aid routinely arrives in mid-December. Sales tax distributed to the Towns in Chenango County varies annually as the formula is tied to the equalized assessed value of taxable property in all Towns.

The difference in Municipal and N.Y.S. budget calendars also make it difficult to know whether “one-time” programs such as CHIPS “extreme winter recovery” or “pothole funds” will be funded annually.

The Town Board will address a number of the Comptrollers recommendations by restricting portions of the fund balances in reserve funds, developing a long term Capital Plan and by formally illustrating our “unofficial” fund balance policies in the corrective action plan. We would like to commend the Comptrollers representatives for their professional and courteous approach to the Audit process.

Peter C. Flanagan
Town of Preston Supervisor

Cc: Town Board and Town Clerk

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 to gain an understanding of the budget process and to determine whether the Board adopted fund balance policies and multiyear financial plans.
- We reviewed the general and highway fund balances for fiscal years 2015 through 2017 to trend the dollar and percentage increases over the three-year period.
- We reviewed the 2015 through 2017 general and highway fund results of operations to determine whether appropriated fund balance amounts were needed to finance operations.
- We compared the general and highway fund's budgeted revenues and appropriations to the actual revenues and expenditures for 2015 through 2017 to determine whether budgets were realistic.
- We reviewed 2015 through 2017 revenues and expenditures to determine which categories contributed the most to the Town's budget-to-actual variances. We interviewed the Supervisor to identify reasons for significant budget variances.
- We interviewed Town officials and observed the Town's infrastructure to determine current and long-term capital needs.
- We compared the general and highway fund balances to the Town's real property tax levies for 2015 through 2018 to assess the reasonableness of fund balance levels.
- We compared the 2018 general and highway fund budgeted revenues and appropriations to 2017 actual revenues and expenditures and with the previous three-year averages to determine whether the 2018 budget was realistic.
- We physically observed and measured the four bridges/culverts in the Town that did not meet the criteria to be maintained by the County, with the assistance of the Highway Superintendent, and calculated the square footage. We used the estimated 2016 cost per square foot for New York found in the Federal Highway Administration's National Bridge Inventory to calculate an estimated cost to replace or rehabilitate each bridge.

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 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

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