



# Barnard Fire District Financial Condition

## Report of Examination

Period Covered:

January 1, 2013 – December 31, 2014

2015M-145



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

September 2015

Dear District Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board of Fire Commissioner governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Barnard Fire District, entitled Financial Condition. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*

# Introduction

## Background

The Barnard Fire District (District) is a district corporation of the State, distinct and separate from the Town of Greece, and is located in Monroe County. The District covers approximately four square miles and serves about 25,000 residents. The District's 2015 general fund budget totals approximately \$3.9 million and is funded primarily by real property taxes.

The Board of Fire Commissioners (Board) is composed of five elected members and is responsible for the District's overall financial management. The Board appoints a full-time Treasurer-Secretary (Treasurer) who acts as the District's chief fiscal officer. The Treasurer is responsible for the District's financial duties, which include receiving and disbursing funds, maintaining accounting records, preparing monthly and annual financial reports and meeting any other reporting requirements. The District is audited annually by a certified public accounting firm and receives audited financial statements.

## Objective

The objective of our audit was to determine if District officials adequately managed the District's financial condition and operations. Our audit addressed the following related question:

- Did the Board adopt and monitor realistic budgets and manage fund balance responsibly?

## Scope and Methodology

We examined the Board's budgeting practices and management of the District's financial condition from January 1, 2013 through December 31, 2014. We extended our scope back to January 1, 2010 to review the District's financial condition trends.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

## Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. We discussed the findings and recommendations with District officials and considered their comments in preparing this report. The District's response is attached to this report in Appendix A. District officials generally agreed with the recommendations and indicated they have initiated or plan to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 181-b of New York State Town Law (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. 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. The Board should make the CAP available for public review in the District Clerk's office.

## Financial Condition

The Board is responsible for overseeing and managing the District's financial operations and making sound financial decisions that are in the best interests of the District and the taxpayers. In preparing the budget, the Board should develop realistic revenue and expenditure estimates, along with an accurate estimate of available fund balance at year end.<sup>1</sup> Fund balance represents money accumulated from prior years that District officials may retain as a financial cushion in the event of unforeseen financial circumstances,<sup>2</sup> legally reserve to finance future costs for a specified purpose<sup>3</sup> or appropriate to help finance next year's budget.<sup>4</sup> Therefore, District officials should adopt budgeting policies and procedures for preparing realistic budgets and managing fund balance at reasonable levels as determined and substantiated by the Board. Adopted budgets should also include long-term planning for equipment and other capital asset additions and the anticipated funding sources (such as the use of reserves or appropriations). Multiyear planning allows District officials to identify revenue and expenditure trends, set long-term priorities and goals and avoid large fluctuations in tax rates.

Reserve funds provide a mechanism for saving money to finance all or part of future infrastructure, equipment and other requirements, and can provide a degree of financial stability by reducing reliance on debt for capital expenditures. The Board should fund reserves at appropriate levels and use them as intended for planned expenditures, in accordance with Board approval and related statutes. The Board should give voters and residents an opportunity to review its plan for funding and using reserves by including provisions to add to, or make expenditures from, reserve funds in the proposed budget.

Over the last three years (2012 through 2014), the District gradually restored its unassigned fund balance from a deficit of \$206,815 at the end of 2011 to \$64,138 at the end of 2014 and has continued this positive trend in the 2015 budget. The District's past financial problems date to an operating deficit in 2010 that resulted in an

<sup>1</sup> Town Law requires the Board to prepare an estimate of the fund balance which shall be affixed to the proposed budget and include a breakdown of the portions of fund balance estimated for encumbrances, appropriated to be expended for the ensuing fiscal year and reserved for stated purposes pursuant to law and the remaining unassigned fund balance.

<sup>2</sup> Referred to as unassigned fund balance

<sup>3</sup> Referred to as restricted fund balance

<sup>4</sup> Referred to as appropriated fund balance. This should result in a planned operating deficit (expenditures exceeding revenues) and can be an effective tool to responsibly reduce surplus fund balance.

unrestricted fund balance deficit of \$61,223 at the beginning of 2011. The problem worsened when the Board adopted a structurally imbalanced 2011 budget that included an appropriation of \$150,000 of fund balance which the District did not have. The District ended 2011 with an unrestricted fund balance deficit of \$196,815. During this period of fund deficits, cash assets of the reserve funds were used to pay operating expenditures, including borrowing \$40,000 in 2011 and \$41,382 in 2012 from the capital reserve to cover payroll costs, a practice which is prohibited.<sup>5</sup> District officials also continued to fund the capital reserve,<sup>6</sup> even though the District did not have sufficient unrestricted fund balance to fund current reserve levels or provide for current operations. For example, the Board allocated \$304,695 to the capital reserve fund from 2012 to 2014, consisting of \$179,695 from the sale of assets and \$125,000 reallocated from unrestricted to restricted fund balance (of which \$75,000 was budgeted and \$50,000 unbudgeted). While reserve funds can be valuable tools to legally restrict funds for future purposes, it is not prudent to allocate money into reserve funds to the extent that the District does not have enough unrestricted fund balance to cover operations and must then improperly use restricted funds for cash flow or filling budgetary gaps.

Since the end of the 2011 fiscal year, the District has steadily improved its financial condition. Between 2012 and 2014, the District increased its tax levy and recognized additional equipment sales revenue and it had positive expenditure budget variances totaling \$268,796 for the three years. As a result, the District had operating surpluses for those three years totaling \$449,443 and gradually replenished its unassigned fund balance. As of December 31, 2014, the District reported \$64,138 in unassigned fund balance (equivalent to 2 percent of the next year's appropriations), and its reported reserves were fully funded. While these improvements represent significant progress, we urge the Board to continue building the District's unassigned fund balance to ensure an adequate cushion for cash flow issues or unanticipated expenditures.

In its 2015 budget, the Board again increased the tax levy, increased appropriations by approximately \$107,000 and appropriated another \$10,000 in fund balance. If recent trends continue, the District may realize another operating surplus for 2015 and further increase its total fund balance. Figure 1 illustrates these trends:

<sup>5</sup> The expenditure of reserve fund money is generally guided by the specific statute authorizing the reserve fund and generally can be used only for the purpose the reserve was established for.

<sup>6</sup> District officials told us they use the capital reserve to purchase new equipment and to make repairs to the fire hall and that, as a general rule, they used the budgeting process and money from the sale of surplus assets to fund the capital reserve.



**Figure 1: General Fund Operating Results and Fund Balance**

Results of Operations	2010	2011	2012	2013	2014
Beginning Total Fund Balance	\$416,565	\$310,230	(\$111,304)	\$5,696	\$133,925
Revenues	\$3,169,245	\$3,298,592	\$3,624,710	\$3,664,232	\$3,912,015
Expenditures	\$3,275,580	\$3,720,126	\$3,507,710	\$3,536,003	\$3,707,801
Operating Surplus/(Deficit)	(\$106,335)	(\$421,534) <sup>a</sup>	\$117,000	\$128,229	\$204,214
<b>Year-End Total Fund Balance</b>	<b>\$310,230</b>	<b>(\$111,304)</b>	<b>\$5,696</b>	<b>\$133,925</b>	<b>\$338,139</b>
Less: Restricted Fund Balance (Reserves)	\$371,453	\$85,511	\$119,704	\$155,860	\$264,001
<b>Unrestricted Fund Balance</b>	<b>(\$61,223)</b>	<b>(\$196,815)</b>	<b>(\$114,008)</b>	<b>(\$21,935)</b>	<b>\$74,138</b>
Less: Appropriated Fund Balance for the Next Year	\$150,000	\$10,000	\$10,000	\$10,000	\$10,000
<b>Unassigned Fund Balance</b>	<b>(\$211,223)</b>	<b>(\$206,815)</b>	<b>(\$124,008)</b>	<b>(\$31,935)</b>	<b>\$64,138</b>

<sup>a</sup> Approximately \$286,000 of the operating deficit was for emergency roof repair that was paid for out of the capital reserve.

Although the trend has been positive, there are steps the Board should take to help ensure continued progress and develop budgets that are realistic and structurally balanced. For example, the Board did not adopt detailed budget policies and procedures for accurately estimating revenues, expenditures and available fund balance and for determining the appropriate levels of unassigned fund balance to retain. Further, District officials had not developed budget monitoring and amendment procedures or a long-term financial plan. Finally, the District's Treasurer did not include fund balance amounts appropriated in the ensuing year's budget in the annual update document (AUD) to the Office of the State Comptroller. District officials told us that they did not know the District had a negative fund balance and that its external auditor had never discussed this with the Board or presented the audited financial statements to the Board for review and questions. Proper policies and procedures would provide the framework for the Board to exercise its authority and responsibility to adopt realistic, structurally balanced budgets and to monitor the District's financial condition.

## Recommendations

The Board should:

1. Adopt budgeting policies and procedures to guide officials in preparing realistic budgets and fund balance estimates and establish a reasonable and necessary level of fund balance to retain for unexpected events and cash flow needs.
2. Develop a long-term financial plan, to include equipment and other capital asset additions, and ensure that the District's adopted budgets include the appropriate plans and resources.
3. Actively monitor the District's financial condition and budget progress throughout the year.



## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

The District officials' response to this audit can be found on the following pages.



# BARNARD FIRE DISTRICT

GREECE, NY



Norman Gerhard II  
Commissioner

Daniel Cappon  
Commissioner

Robert Diederich  
Commissioner

John Norris  
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Ronald Wood  
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John Driscoll  
Chief

Carl Veltri  
Deputy Treasurer

September 8, 2015

Mr. Edward V. Grant, Jr.  
Chief Examiner  
Rochester Regional Office  
Powers Building  
16 West Main Street – Suite 522  
Rochester, NY 14614-1608

Dear Mr. Grant,

The Barnard Fire District's Board of Fire Commissioners is aware that their responsibility is to oversee and manage the District's financial operations and making sound financial decisions that are in the best interest of the District and the taxpayers. In preparing the budget, the Board will develop realistic revenue and expenditure estimates, along with an accurate estimate of available fund balance at year end. It is to this end that the Board has historically adopted trim and no frill budgets in efforts to keep the tax rate down to an acceptable level.

The Board understands that the fund balance represents money accumulated from prior years that District officials may retain as a financial cushion in the event of unforeseen financial circumstances, legally reserve to finance future costs for a specified purpose, or appropriate to help finance next year's budget.

Therefore, District officials will adopt a Budget and Fund Balance Policy (The Policy) which contains established budget procedures for preparing realistic budgets and managing fund balance at reasonable levels. The Board will include in its adopted budgets, long-term planning for equipment and other capital asset additions, and the anticipated funding sources. The use of multiyear planning will allow the Fire District officials to identify revenue and expenditure trends, set long-term priorities and goals, and avoid large fluctuations in tax rates.

The Fire District has historically used reserve funds to provide a mechanism for saving money to finance all or part of future infrastructure, equipment and other requirements. The Board recognizes that reserve funds can provide a degree of financial stability by reducing reliance on debt for capital expenditures. The Board is also aware that it should fund reserves at appropriate levels and use them as intended for planned expenditures, in accordance with

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Board approval and related statutes. The new policy will give voters and residents an opportunity to review the Fire District's plan for funding and using reserves.

The Board appreciates that the audit did recognize that from 2012 through 2014, the Fire District did gradually restore its unassigned fund balance to a positive \$64,138 at the end of 2014, continuing this positive trend in the 2015 budget. The Board has every intention of continuing this trend.

In 2010, and again in 2011, the Board adopted conservative and very tight budgets. During this time also we had an unanticipated emergency building repair which was approximately \$280,000. These financial issues were due to a fiscally conservative approach to budgets that is not collecting enough tax money for the current and subsequent year expenditures, an approach that was changed in 2012, 2013 and 2014.

The District is very aware and has addressed in its budget policy, that reserve funds can be valuable tools to legally restrict funds for future purposes. That is why since the end of the 2011 fiscal year, the District has steadily improved its financial condition. As the audit pointed out, between 2012 and 2014, the District increased its tax levy and recognized additional equipment sales revenue, and also had positive expenditure budget variances totaling \$214,212 for the three years. As a result, the District had operating surpluses for those three years, totaling \$449,441, and gradually replenished its unassigned fund balance. As of December 31, 2014, the District reported \$64,138 in unassigned fund balance (equivalent to 2 percent of the next year's appropriations) and its reported reserves were fully funded. Since these improvements represent significant progress, the Board will continue building the District's unassigned fund balance to ensure an adequate cushion for cash flow issues or unanticipated expenditures, which markers are set forth in the policy.

In the policy, the Board will not allocate money into reserve funds when it does not have enough unrestricted fund balance to cover operations. In this way the Board will not be in the position to use restricted funds for cash flow or filling budgetary gaps.

The Board's policy is a positive step forward to ensure continued progress and to develop budgets that are realistic and structurally balanced, and to guide Fire District officials in preparing realistic budgets and fund balance estimates and establish a reasonable and necessary level of fund balance to retain for unexpected events and cash flow needs.

Finally In the policy, the Board will address long-term financial plans, to include equipment and other capital asset additions, and ensure that the District's adopted budgets include the appropriate plans and resources.

In the policy, the board will also monthly, with the Treasurer's report, actively monitor the District's financial condition and budget progress throughout the year \_\_\_\_\_

Sincerely,

The Barnard Fire District

John Norris, Chairman  
Board of Fire Commissioners  
3084 Dewey Avenue  
Rochester, NY 14616

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to determine if District officials adequately managed the District's financial condition and operations for the period January 1, 2013 through December 31, 2014. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We reviewed the Board's minutes and interviewed District officials to gain an understanding of the District's policies and procedures.
- We reviewed bank statements and bank reconciliations and compared them to the accounting records for accuracy.
- We reviewed the Treasurer's reports for the randomly selected months of December 2013 and May 2014 and compared them to vendor invoices to determine accuracy.
- We reviewed all disbursements for the randomly selected months of December 2013 and May 2014 to determine if they were properly supported and audited by the Board and if they represented proper District expenditures.
- We reviewed budget-to-actual reports from 2011 to 2014 to determine the accuracy of the District's budget.
- We reviewed the District's adopted budgets for 2011 through 2015.
- We reviewed the District's audited financial statements from 2011 through 2014.
- We reviewed financial information reported on the District's AUDs to the Office of the State Comptroller from 2010 through 2014.
- We reviewed the accounting records related to the District's capital reserve and repair reserve from 2011 through 2014.

We conducted this performance audit in accordance with GAGAS. 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.

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