



# Town of Bainbridge

## Financial Management

### Report of Examination

Period Covered:

January 1, 2015 — July 21, 2016

2016M-332



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**

January 2017

Dear Town 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 town 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 Town of Bainbridge, entitled Financial Management. 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 New York State 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 Town of Bainbridge (Town) is located in Chenango County and serves approximately 3,300 residents. The elected, five-member Town Board (Board) is the legislative body responsible for managing Town operations, including developing and monitoring the annual budget. The Town Supervisor (Supervisor) is a member of the Board and serves as the Town's chief executive officer and chief fiscal officer. The Supervisor is generally responsible for the administration and supervision of the Town's day-to-day fiscal operations, including maintaining the accounting records and providing monthly reports to the Board.

The Town provides various services to its residents, including street maintenance and improvements, snow removal, parks and recreation and general government support. The Town's 2016 budgeted appropriations totaled approximately \$1.1 million, funded primarily with real property taxes, State aid and sales tax.

## **Objective**

The objective of our audit was to assess Town officials' management of the Town's financial condition. Our audit addressed the following related question:

- Did Town officials effectively manage the Town's financial condition?

## **Scope and Methodology**

We examined various financial records and reports and interviewed Town officials to gain an understanding of financial operations from January 1, 2015 through July 21, 2016. We extended our scope back to January 1, 2013 and forward through December 31, 2016 to trend and analyze financial information. We also extended our scope back to January 1, 2011 to calculate average monthly expenditures over a five-year period.

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 Local Officials and Corrective Action**

The results of our audit and recommendations have been discussed with Town officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded 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 this plan available for public review in the Town Clerk's office.

## Financial Management

The Board and Supervisor are responsible for making sound financial decisions that are in the best interests of the Town and the residents they serve. This responsibility includes maintaining a reasonable amount of fund balance and following prudent budgeting practices, such as using accurate and up-to-date information to adopt realistic, structurally balanced budgets. Fund balance represents the cumulative residual resources from prior fiscal years. Towns are legally allowed to establish reserves and restrict funds for certain future purposes, such as capital projects. The unrestricted portion of fund balance<sup>1</sup> is the amount that may be appropriated to fund programs in the next year's budget or retained for cash flow purposes and to help finance future operations.

Proper fund balance management ensures sufficient funding will be available to sustain operations, address unexpected occurrences and satisfy long-term obligations or future expenditures. To that end, it is imperative that Town officials establish fund balance goals, including the level of fund balance that should be maintained. In a structurally balanced budget, the total financing sources are equal to the amount of appropriations, and recurring expenditures are financed by recurring revenues. The Board may also use non-recurring revenues such as appropriated fund balance as a financing source. However, since non-recurring revenues are finite, they should not regularly finance recurring expenditures, and fund balance should be appropriated only if it is available.

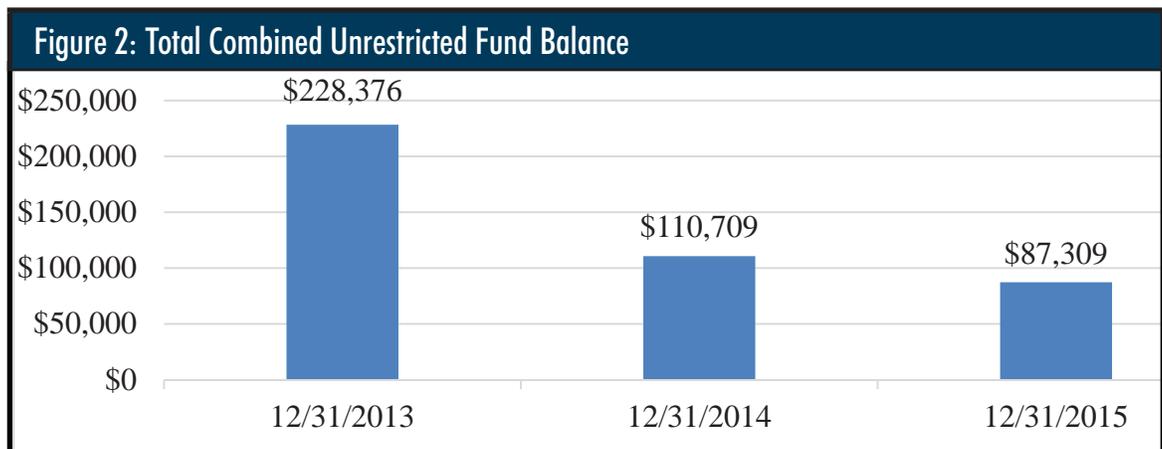
Town officials did not effectively manage the Town's financial condition. The Board has not established goals for the level of unrestricted fund balance to be maintained, which contributed to the appropriation of imprudent amounts of fund balance. From 2013 through 2015, officials used one-time financing sources to fund recurring expenditures, adopting budgets that were not structurally balanced by appropriating fund balance totaling \$567,500. As a result, the Town's four major operating funds (town-wide general, part-town general, town-wide highway and part-town highway) have experienced combined operating deficits in each of the past three years, totaling more than \$310,000 (see Figure 1).

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<sup>1</sup> Unrestricted fund balance is the total of the committed, assigned and unassigned fund balance.

<b>Figure 1: Results of Operations – Four Major Operating Funds Combined</b>				
	2013	2014	2015	Totals
Revenues	\$974,742	\$969,220	\$1,006,983	<b>\$2,950,945</b>
Expenditures	\$1,103,489	\$1,119,497	\$1,038,266	<b>\$3,261,252</b>
Operating Deficit	(\$128,747)	(\$150,277)	(\$31,283)	<b>(\$310,307)</b>

These operating deficits caused the combined unrestricted fund balance for the four major operating funds to decline by \$141,067, from \$228,376 as of December 31, 2013 to \$87,309 as of December 31, 2015 (see Figure 2). The combined restricted fund balance (reserves) for these funds declined by \$40,493 during the same period.



Furthermore, for the 2015 budget, the Board appropriated fund balance to finance operations. However, there was not enough available, which resulted in the town-wide general and part-town highway funds commencing 2015 with a budgetary deficit totaling \$110,011 (see Figure 3). The Board members told us they appropriated fund balance each year to stay within the New York State real property tax cap regulations.<sup>2</sup> As a result of these practices, the Board increased the 2016 real property tax levy by 20 percent, or \$102,465.

<b>Figure 3: Available Fund Balance</b>			
	Town-wide General Fund	Part-town Highway Fund	Totals
Unrestricted Fund Balance as of December 31, 2014 Available to Appropriate for 2015 Budget	\$665	\$64,824	<b>\$65,489</b>
Appropriated Fund Balance for 2015 Budget	\$54,500	\$121,000	<b>\$175,500</b>
Fund Balance Shortage	(\$53,835)	(\$56,176)	<b>(\$110,011)</b>

<sup>2</sup> With some exceptions, the State's property tax cap limits the amount local governments can increase property taxes to the lower of 2 percent or the rate of inflation. Town boards may pass a local law to override the tax cap.

Operating deficits are often a precursor to cash flow problems. The Town's fund balance is primarily composed of cash; and Town officials had to address the need for cash in the short-term by using interfund loans of approximately \$49,000 in 2015 to pay for expenditures. However, as fund balance declines Town officials' ability to manage cash flow will become more difficult. As of July 31, 2016, the Town's total unrestricted cash on hand (approximately \$315,000) could finance three and one-half months of expenditures. If Town officials continue to budget for the use of fund balance as a financing source, the cash balance will continue to decline making it difficult for Town officials to manage cash flow and cover unforeseen costs.

We reviewed the 2016 and 2017 budgets and the 2016 year-to-date operating results for the four major operating funds. The Board adopted budgets that were not structurally balanced for three of the funds in 2016 and all four of the funds in 2017. However, we project a total operating surplus of approximately \$127,000 for 2016 for all four funds combined. While this unexpected, projected surplus may be fortuitous, if the Board continues to adopt budgets that are structurally unbalanced, the Town's unrestricted fund balances will eventually be depleted. This will force the Board to reduce the current level of expenditures, increase real property taxes or find alternative revenue sources.

## **Recommendations**

The Board should:

1. Develop and adopt structurally balanced budgets with tax levies that equal the difference between recurring revenues and recurring expenditures.
2. Establish fund balance goals, including the level of unrestricted fund balance that should be maintained.

**APPENDIX A**  
**RESPONSE FROM LOCAL OFFICIALS**

The local officials' response to this audit can be found on the following page.

**Town of Bainbridge  
15 North Main Street  
Bainbridge, NY 13733**

December 19, 2016

Office of the State Comptroller  
Todd Eames, Chief Examiner  
State Office Building, Suite 1702  
44 Hawley Street  
Binghamton, NY 13901-4417

RE: Audit Report Period Covering  
January 1, 2015 – July 21, 2016

Dear Mr. Eames,

This letter is in response to our recent audit. The Town of Bainbridge Supervisor and the Board members agree with the findings in this report.

Our Corrective Action Plan has been to establish starting fund balance for our accounts. Each year when doing the budget we will always start with the same balances , and not use the fund balances to balance the budget. After several years trying to stay under the tax cap we depleted our fund balances.

We found this audit to be very helpful. Your staff [REDACTED] and [REDACTED] were very pleasant and easy to work with. They answered many question which we had. Please feel free to contact me with any concerns.

Sincerely,

Dolores Nabinger  
Bainbridge Town Supervisor

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed Town officials to gain an understanding of the Town's fiscal policies and procedures, including the budget development and monitoring processes, and whether the Board established a goal for the level of unrestricted fund balance to be maintained.
- We reviewed adopted budgets from 2013 through 2016 to determine whether they were structurally balanced and to calculate the total amount of appropriated fund balance.
- We calculated the results of operations for the Town's four major operating funds from 2013 through 2015.
- We analyzed the trends of total fund balance for the Town's four major operating funds from 2013 to 2015.
- We compared available unrestricted fund balance to amounts appropriated in the adopted budgets for 2013 through 2015 to determine whether amounts appropriated were available.
- We calculated average monthly expenditures, including payroll, from 2011 through 2015. We compared the result to total unrestricted cash on hand as of July 31, 2016 to determine the number of months Town officials could finance operations with current cash balances.
- We calculated the increase of total real property tax levies between 2015 and 2016.
- We projected operating results for the Town's four major operating funds for the fiscal year ending December 31, 2016.

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.

## APPENDIX C

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**AND SCHOOL ACCOUNTABILITY**

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