

Fishers Fire District

Financial Condition

OCTOBER 2021



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

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Report Highlights

Fishers Fire District

Audit Objective

Determine whether the Board of Commissioners (Board) effectively managed the Fishers Fire District's (District's) financial condition.

Key Findings

The Board did not effectively manage the District's financial condition and did not adopt realistic budgets from 2018 through 2021.

- The Board gave taxpayers the impression the District needed to increase real property taxes and override the 2018 and 2020 tax caps to close projected budget gaps. As a result, more real property taxes were levied than needed to fund operations.
 - As of December 31, 2020, the unassigned fund balance increased to \$1.8 million, which is sufficient to pay 43 percent of the District's 2020 expenditures.
- The Board also did not adhere to its fund balance policy or adopt budgeting or reserve policies or multiyear financial and capital plans. Adhering to the adopted fund balance policy and adopting and adhering to these policies and plans would increase transparency.

Key Recommendations

- Adopt realistic budgets with reasonable estimates of revenues, appropriations and fund balance.
- Establish budgeting and reserve policies and develop multiyear financial and capital plans.

Officials partially agreed with our findings and recommendations and indicated they planned to initiate corrective action. Appendix B includes our comment on issues raised in the District's response.

Background

The District provides fire protection services for 26 square miles within the Town of Victor in Ontario County, including five miles of the New York State Thruway.

An elected five-member Board is responsible for the general management and control of financial operations, including adopting annual budgets and establishing financial policies.

The Board appointed a Treasurer who serves as the District's chief fiscal officer and is responsible for receiving, maintaining custody of, disbursing, and accurately accounting for District funds and preparing periodic financial reports. Prior to January 1, 2021, the Treasurer was an elected position.

Quick Facts

Total Fund Balance	
2020	\$5,289,713
2019	\$4,320,852
2021	
Appropriations	\$5,557,888
Real Property Tax Levy	\$4,949,342
2020	
Expenditures	\$4,076,500
Revenues	\$5,045,361

Audit Period

January 1, 2018 – July 12, 2021

Financial Management

What Is Proper Financial Management?

A board is responsible for making financial decisions that are in the best interest of a district and its residents. To properly manage financial condition, a board should adopt reasonably estimated and structurally balanced budgets based on historical data or known trends. In preparing the budget, a board must estimate the amounts that will be spent and received and the amount of fund balance that may be available to fund appropriations.

A reasonable portion of fund balance may be retained for unforeseen circumstances and to provide cash flow – for example, to compensate for timing differences between when revenues are received and expenditures are made. A board can also legally set aside, or reserve, a portion of fund balance to finance future costs for specific purposes (e.g., capital improvements or vehicle replacements). Properly funded reserves can reduce reliance on debt to finance capital projects and other acquisitions and can help district officials finance the costs of capital expenditures.

A board is also responsible for adopting written policies and procedures governing the budgeting process, which include defining the amounts of fund balance and reserves that the district should reasonably maintain. The District's current fund balance policy limits unreserved fund balance to five percent of operating expenditures maintained for contingency and another 20 percent for cash flow purposes. To effectively manage operations, the Board must ensure the Treasurer provides complete and accurate accounting reports that properly and accurately reflect the District's financial activity.

Prudent fiscal management requires a board to establish long-term financial and capital plans. Planning on a multiyear basis allows district officials to identify developing revenue and expenditure trends, set long-term priorities and goals and consider the impact of current budget decisions on future fiscal years. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period. Continually monitoring and updating these plans provides a reliable framework for preparing budgets and to ensure that information used to guide decisions is current and accurate. See our publications *Multiyear Financial Planning*¹ and *Multiyear Capital Planning*.²

The Board Did Not Effectively Manage Financial Condition

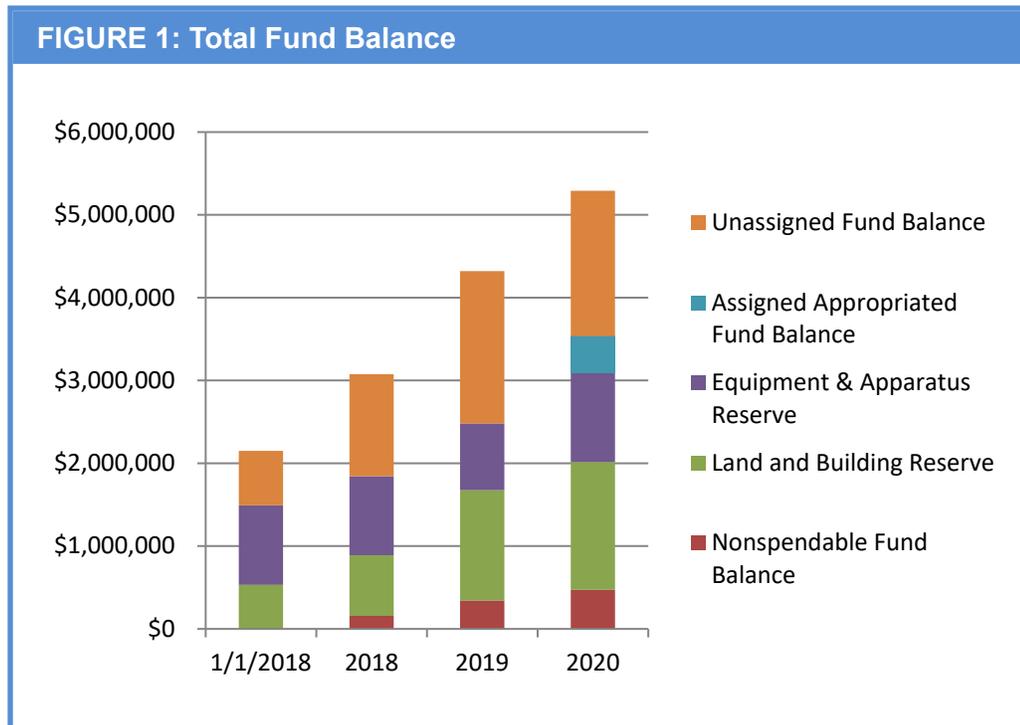
The Board did not adopt realistic budgets or budgeting and reserve policies and did not comply with its adopted fund balance policy. The Board overestimated appropriations by \$1.9 million (average of 15.5 percent annually) from 2018

A reasonable portion of fund balance may be retained for unforeseen circumstances...

1 See <https://www.osc.state.ny.us/files/local-government/publications/pdf/multiyear.pdf>.

2 See https://www.osc.state.ny.us/files/local-government/publications/pdf/capital_planning.pdf.

through 2020. As a result, the District's total fund balance increased from approximately \$2.1 million to \$5.3 million. Figure 1 shows the increase by year. The financial information has been adjusted for the inaccurately accrued and reported liability for employee sick leave bank balances.



The Board adopted budgets that gave taxpayers the impression the District needed to increase real property taxes to close projected budget gaps.

The Board adopted budgets that gave taxpayers the impression the District needed to increase real property taxes to close projected budget gaps. As a result, more real property taxes were levied than needed to fund operations. During this period, the Board unnecessarily overrode the tax cap in both 2018 and 2020 which allowed them to raise an additional \$974,598 in unneeded real property taxes over the tax cap limit.

As a result of these non-transparent budgeting practices, unassigned fund balance was \$1.8 million of the \$5.3 million total fund balance at December 31, 2020. This is 43 percent of the 2020 expenditures and it also exceeds the adopted fund balance policy limit of 25 percent. In each of the last three years, the District's unassigned fund balance exceeded its own fund balance policy limit by as much as \$1,112,869 (See Figure 2).

Figure 2: Fund Balance to Policy Comparison

	2018	2019	2020
25% of Total Expenditures	\$822,786	\$726,152	\$942,248
Unassigned Fund Balance	\$1,232,308	\$1,839,021	\$1,755,311
Over Amount Allowed by Policy	\$409,522	\$1,112,869	\$813,063

The Board continued these budgeting practices when adopting the 2021 budget resulting in \$414,320 in overestimated appropriations as of June 30, 2021. For example, the 2021 capital expenditure appropriation was \$350,900 yet the District only expended \$24,786 as of June 30, 2021, and anticipated expending an additional \$272,500 for the remainder of the year. Therefore, the appropriation is overestimated by \$53,614 (15 percent). As a result, the planned operating deficit will most likely not occur, the appropriated fund balance totaling \$445,500 most likely will not be needed and fund balance will remain higher than necessary.

In addition, the Board’s ability to effectively monitor the District’s financial condition was hampered because the Treasurer’s reports inaccurately accrued and reported a liability for employee accrued sick leave balances totaling approximately \$350,000. Upon separation an employee is not paid for their accrued sick leave balance therefore the balances have no monetary value and are not a liability. As a result, fund balance was annually understated by \$283,003 on average for the 2018 to 2020 audit period.

The Board Did Not Adopt Formal Multiyear Plans

The Board did not develop written comprehensive multiyear financial and capital plans that set long-term objectives and goals. Such plans would be useful to address the large fund balance in the District’s operating fund, increase transparency and assist in maintaining a reasonable level of unexpended surplus funds at year end. The plans could outline the Board’s intentions for financing future capital improvements and maintaining the existing infrastructure.

Although the Board included provisions of \$500,000 in the budget to fund the equipment and apparatus and land and building reserves that were established over 40 years ago, the Board did not effectively manage the reserve funds. Without a reserve policy and multiyear capital and financial plans, there was no evidence that the Board determined the financial need, purpose, use of, replenishment, and rationale for determining the appropriate funding level of each reserve.

The Board did not develop written comprehensive multiyear financial and capital plans that set long-term objectives and goals.

For example, the equipment and apparatus reserve totaled \$1,075,021 at December 21, 2020, which is sufficient to cover the anticipated capital expenditures for 2022 and 2023 totaling \$1,060,000 as detailed in the Board-adopted equipment and apparatus replacement schedule. The schedule detailed the anticipated year of replacement, item description and estimated cost for the period 2020 through 2040. However, the schedule does not identify financing sources, nor set long-term priorities and goals.

District officials told us the land and building reserve totaling \$1,542,788 at December 31, 2020 was intended for the renovation or replacement of Station 1 (See Figure 3). However, due to the COVID-19 pandemic, the investigatory phase of the future capital project was put on hold.



Without developing and adopting formal multiyear plans, the Board cannot adequately plan for the future and there is a risk that the Board's intentions for the District will not be fulfilled.

What Do We Recommend?

The Board should:

1. Adopt realistic budget estimates of expenditures that are based on available current data and historical or known trends.
2. Develop a plan to reduce the amount of fund balance in a manner that benefits District taxpayers. Surplus funds can be used as a financing source for:
 - Funding one-time expenditures,
 - Funding needed reserves,
 - Paying off debt, and
 - Reducing property taxes.
3. Develop comprehensive budgeting and reserve policies and multiyear financial and capital plans that set long-term objectives and goals. These plans should be monitored and updated on an ongoing basis.
4. Adhere to the fund balance policy.

Appendix A: Response From District Officials



FISHERS FIRE DISTRICT

**380 High Street
Victor, NY 14564
585-924-5955**

September 21, 2021

Mr. Edward V. Grant Jr.
Chief Examiner
Division of Local Government and School Accountability
The Powers Building
16 West Main St., Suite #522
Rochester, NY 14614

Dear Mr. Grant:

We are in receipt of the draft audit report #2021M-218 regarding the Fishers Fire District Financial Condition. We appreciate the review conducted by your auditors to ensure the proper financial management of our District. We are pleased to find that the audit did not reveal any fraud, theft, or misuse of our public funds.

While we do acknowledge that there is always room for improvement, it is important to note that the deficiencies outlined in this report were not malicious in nature and there is no finding of any intent to defraud our taxpayers.

The Board of Fire Commissioners has reviewed the report, findings, and recommendations, and offers the following responses to the Key Findings:

a. The Board did not effectively manage the District's financial condition and did not adopt realistic budgets from 2018 through 2021.

The Board generally disagrees with this finding. The Board engages in an open and transparent budgeting process, including specifying the amount and use of unassigned fund balances. The Fishers Fire District was in a period of growth during this time and was adding career firefighters. In 2018 we added 5 new firefighters, and our staffing increased to 28 employees, including a paid Fire Chief per New York State requirements. The Board was trying to budget appropriately for the new staffing costs.

During this period we budgeted for several projects/staffing additions, and were awarded \$617,346.66 in grant funds for these items which had been included in the budgets. Great pre-

See Note 1 Page 10

COVID interest rates added \$44,590 to the General Fund that was not anticipated in the budgeting process.

Depending on a variety of factors, projects that are budgeted in a current year may be delayed to the next year for a number of reasons. The Board identified several significant building repair projects for one of our fire stations, which were included in the budgeting processes. In 2018, the Board decided to evaluate whether these expenditures were prudent, or whether it would be a better use of taxpayer dollars to build a new fire station. A professional study was commissioned in 2019, and was presented to the Board in March, 2020. These projects, although they were included in the budgets, were delayed until the Board could decide on a course of action, but COVID then halted the momentum.

In 2020, COVID significantly impacted our expenditures – the world shut down and we were unable to use the tax funds in many budgeted areas, included the use of the prior year’s Unassigned Fund Balance allocations. This alone added an additional \$481,290 to our Unassigned Fund Balance amount.

Budgets must be adopted in October of each year, and it is difficult to pinpoint the exact expenditure amounts needed. We must allow for equipment repairs, unplanned career firefighter absences, and overtime costs so that we do have the appropriate funding to run our district.

- b. The Board gave taxpayers the impression the District needed to increase real property taxes and override the 2018 and 2020 tax caps to close projected budget gaps. As a result, more real property taxes were levied than needed to fund operations.***

While the Board understands this comment, it believes that the overrides were necessary to maintain the safe operations of the District.

- In 2018, the tax cap for the budget was overridden due to the significant increase in personnel costs for the addition of 5 paid firefighters, a paid Fire Chief, and a new union contract.
- For the 2020 budget, the budgeted expenditures exceeded the 2% tax cap by \$176,782, and an override was needed. Personnel costs increased significantly while the rest of the budgeted expenditures remained constant or decreased.
- \$455,000 of Unassigned Fund Balance was used to offset the 2021 tax rate.
- The District has maintained a consistent tax rate from 2019 through 2021, while managing increasing costs.
- The 2021 budgeted capital expenditures referenced in the report are set to be expensed by the end of 2021, barring any material or labor shortages.
- The District will continue to look for opportunities to improve efficiencies and reduce operational expenditures. It is this process, however, which has led to budgeted projects being eliminated, delayed, or conducted in a more cost-efficient manner than was anticipated that has led to the increase in our Unassigned Fund Balance.

See Note 1 Page 10

c. The Board also did not adhere to its fund balance policy or adopt budgeting or reserve policies or multi-year financial and capital plans.

- The Board agrees that the fund balance exceeded the policy limits due to the reasons listed in this letter, and that there is a need for multi-year financial and capital plans and updated policies. These will be developed as part of the 2022 budget process.

d. The Treasurer's Reports inaccurately accrued and reported a liability for employee sick leave balances

- During the 2019 audit, the Treasurer reported to the District's CPA that she did not believe that the sick leave balances should be included on the liabilities, since they are accrued for New York State Retirement Service Credit under the 41(J)/341(J) plan. The CPA disagreed because he thought that they did have a cash value when used for wages due to extended sick leave, and kept it on the balance sheet.
- The \$283,003 has been removed from liabilities and is now part of the Unassigned Fund Balance to be used in the 2022 budgeting process.

We thank the State Comptroller's Office for their review of our financial condition and for their recommendations. As a result, we hope to improve District budgeting processes to provide more fiscally-responsible process.

Sincerely,

Chairman Kyle Fischer

Appendix B: OSC Comment on the District's Response

Note 1

While some variance can be expected as a result of the timing of projects or adoption of the budget, this does not adequately explain the variances noted in our audit. Prior to the COVID-19 pandemic, the Board adopted budgets that overestimated appropriations resulting in operating surpluses of \$926,160 in 2018 and \$1,244,921 in 2019. Because the Board consistently overestimated appropriations, it appeared that real property taxes needed to be increased by overriding the tax cap. However, this was not the case. More effective analysis of historical data will help ensure only necessary real property taxes are levied.

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 and reviewed Board meeting minutes to gain an understanding of the budget process and to determine whether the Board adopted relevant policies and multiyear plans. Further, we reviewed any relevant policies and plans identified.
- We compared budgeted revenues and appropriations to the actual revenues and expenditures for 2018 through 2020 to determine whether budgets were realistic.
- We compared the 2021 budgeted revenues and appropriations to the year-to-date actual results of operations to determine whether the 2021 budget is realistic.
- We reviewed the 2021 adopted budget to determine whether the Board addressed prior years' budgeting issues.
- We reviewed fund balance levels for 2018 through 2020 to determine whether balances were reasonable.

We conducted this performance audit in accordance with generally accepted government auditing standards (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.

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. 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.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.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/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

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