



# Town of Huron

## Financial Management

### Report of Examination

Period Covered:

January 1, 2011 — September 18, 2014

2014M-367



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**

June 2015

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 Board 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 Huron, 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 Huron (Town) is located in Wayne County and serves a population of approximately 2,000. The Town provides various services to its residents including street maintenance, snow removal, fire protection, aquatic weed harvesting and general government administration. The Town also maintains five water districts that are operated by the Wayne County Water and Sewer Authority (Authority). The Authority receives all water revenues and maintains and pays the operation and maintenance expenses. The Town is responsible for the capital debt service on the facilities. The Town's budgeted appropriations for the 2014 fiscal year were approximately \$2.16 million, funded primarily with real property taxes, sales tax and State aid.

The Town is governed by an elected Town Board (Board), which comprises a Supervisor and four Board members. The Board is responsible for the general management and control of the Town's financial and operational affairs. The Board is also responsible for adopting and monitoring the budget and ensuring the Town's sound financial position. The Supervisor is the chief fiscal officer and budget officer and is responsible for maintaining the accounting records and preparing financial reports. The Supervisor has delegated some of these duties to a bookkeeper.

## Objective

The objective of our audit was to review the Town's financial management, budget practices and resultant financial condition. Our audit addressed the following related question:

- Is the Board providing adequate oversight and management of the Town's financial operations?

## Scope and Methodology

We examined the Town's financial management for the period January 1, 2011 through September 18, 2014.

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 plan to implement 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 the 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 Clerk's office.

## Financial Management

The Board is responsible for making sound financial decisions that balance the level of services desired and expected by the Town's residents with the ability and willingness of the taxpayers to pay for those services. The Board can best accomplish this by adopting multiyear financial plans or policies and procedures that set forth the Town's financial objectives and goals and govern budgeting practices and the level of fund balance to maintain in each fund. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period and help Town officials identify revenue and expenditure trends, set long-term priorities and goals and avoid large fluctuations in tax rates.

When developing the budget, the Board should accurately estimate revenues and expenditures based on actual financial results from prior years, along with other relevant available data. Town officials should have a reasonable estimate of fund balance<sup>1</sup> that will be available at the end of the current fiscal year. The Board is responsible for retaining enough unrestricted fund balance at the end of the year to provide a reasonable financial cushion for unexpected events and cash flow in the ensuing year. The Board may then appropriate a portion of fund balance as a financing source in the ensuing year's budget to reduce the tax levy. This should result in a planned operating deficit (expenditures exceeding revenues) for that year and can be an effective tool to responsibly reduce surplus fund balance. It is not a sound practice to routinely appropriate fund balance that will not actually be used due to budgetary surpluses built into revenue and expenditure estimates. This practice misleads taxpayers and, instead of decreasing excessive fund balance, further increases surplus fund balance and causes excessive real property tax levies.

The Board and Town officials have not developed multiyear financial plans, policies or procedures to establish financial goals and govern budgeting practices and the level of unrestricted unappropriated fund balance to maintain. Although Town officials stated they have an informal list of projects to be completed and equipment to be replaced, it does not address the Town's operations as a whole to provide guidance for addressing large fund balances, maintaining a reasonable level of unrestricted unappropriated fund balance, or for identifying, prioritizing and strategically addressing future financial needs. Without multiyear financial plans and budgeting policies, the Board is less able to identify developing revenue and expenditure

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<sup>1</sup> The difference between revenues and expenditures accumulated from prior years

trends and set long-term priorities and goals to help avoid excessive tax levies or large fluctuations in financial condition and resultant tax rates.

Lacking sound budgeting policy guidance, the Board has routinely adopted budgets with unrealistic estimates, which resulted in the accumulation of surplus funds and higher tax levies than necessary. The Board enacted a local law in 2013 to override the property tax cap<sup>2</sup> in the 2014 budget and exceeded the 2014 tax cap by \$23,000. Town officials said they needed to exceed the tax cap to address increased costs for workers' compensation and New York State and Local Retirement System benefits. However, we found that the Town already had sufficient surplus funds to cover these increases and did not need to exceed the tax cap. The Board enacted another local law to override the property tax cap in its 2015 budget and exceeded the tax cap by \$4,900. It is important that the Board monitor fund balances and adjust the budgets accordingly to avoid unnecessary tax increases. Beginning with the 2015 fiscal year, overriding or exceeding the tax cap can result in the loss of potential real property tax credits by Town taxpayers, in accordance with 2014 Property Tax Freeze Credit legislation. Figure 1 illustrates the operating results and fund balance trends for the general and highway funds from fiscal years 2011 through 2014.<sup>3</sup>

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<sup>2</sup> With some exceptions, the State's property tax cap legislation limits the amount local governments and most school districts can increase property taxes to the lesser of 2 percent or the rate of inflation.

<sup>3</sup> On March 5, 2015, after we completed audit fieldwork, we obtained 2014 year-end financial reports from the Town and have included 2014 information in this analysis for an updated perspective.

**Figure 1: General and Highway Funds - Operating Results and Fund Balance**

General Fund					
	2011	2012	2013	2014	TOTAL
Operating Surplus/(Deficit)	\$172,268	\$23,837	(\$36,506)	(\$93,445)	<b>\$66,154</b>
Appropriated Fund Balance	\$50,000	\$100,000	\$100,000	\$132,500	<b>\$382,500</b>
Appropriated Reserves	\$25,000	\$0	\$30,000	\$100,000	<b>\$155,000</b>
Unused Appropriated Fund Balance	\$75,000	\$100,000	\$93,494	\$139,055	<b>\$407,549</b>
Total Fund Balance	\$692,861	\$716,698	\$680,192	\$586,747	
Less Reserves	\$186,206	\$161,001	\$161,129	\$160,004	
Less Unreserved Fund Balance Appropriated for Next Year's Budget	\$100,000	\$100,000	\$132,500	\$100,000	
<b>Unassigned Fund Balance</b>	<b>\$406,655</b>	<b>\$455,697</b>	<b>\$386,563</b>	<b>\$326,743</b>	
Next Year's Appropriations	\$730,953	\$738,146	\$904,322	\$855,292	
Percentage of Next Year's Budget	56%	62%	43%	38%	
Highway Fund					
	2011	2012	2013	2014	TOTAL
Operating Surplus/(Deficit)	\$48,391	\$76,388	(\$51,593)	\$99,669	<b>\$172,855</b>
Appropriated Fund Balance	\$0	\$0	\$40,000	\$0	<b>\$40,000</b>
Appropriated Reserves	\$0	\$0	\$30,000	\$0	<b>\$30,000</b>
Unused Appropriated Fund Balance	N/A	N/A	\$18,407	N/A	<b>\$18,407</b>
Total Fund Balance	\$377,211	\$453,599	\$402,006	\$501,675	
Less Reserves	\$125,912	\$176,213	\$119,380	\$219,441	
Less Unreserved Fund Balance Appropriated for Next Year's Budget	\$0	\$40,000	\$0	\$50,000	
<b>Unassigned Fund Balance</b>	<b>\$251,299</b>	<b>\$237,386</b>	<b>\$282,626</b>	<b>\$232,234</b>	
Next Year's Appropriations	\$855,250	\$882,551	\$834,573	\$865,910	
Percentage of Next Year's Budget	29%	27%	34%	27%	

The Board underestimated general fund revenues by \$311,756 and overestimated expenditures by \$291,898 over the four-year period, for a total positive budget variance of \$603,654. In those same budgets, the Board appropriated unrestricted fund balance totaling \$382,500 and \$155,000 from the capital reserve. This should have resulted in planned operating deficits and fund balance decreases of \$537,500. However, due to the surpluses built into the revenue and expenditure estimates, the fund had net operating surpluses totaling \$66,154 over the four years and did not use \$407,549, or 76 percent,<sup>4</sup> of the appropriated fund balance and reserves.<sup>5</sup> As of December 31,

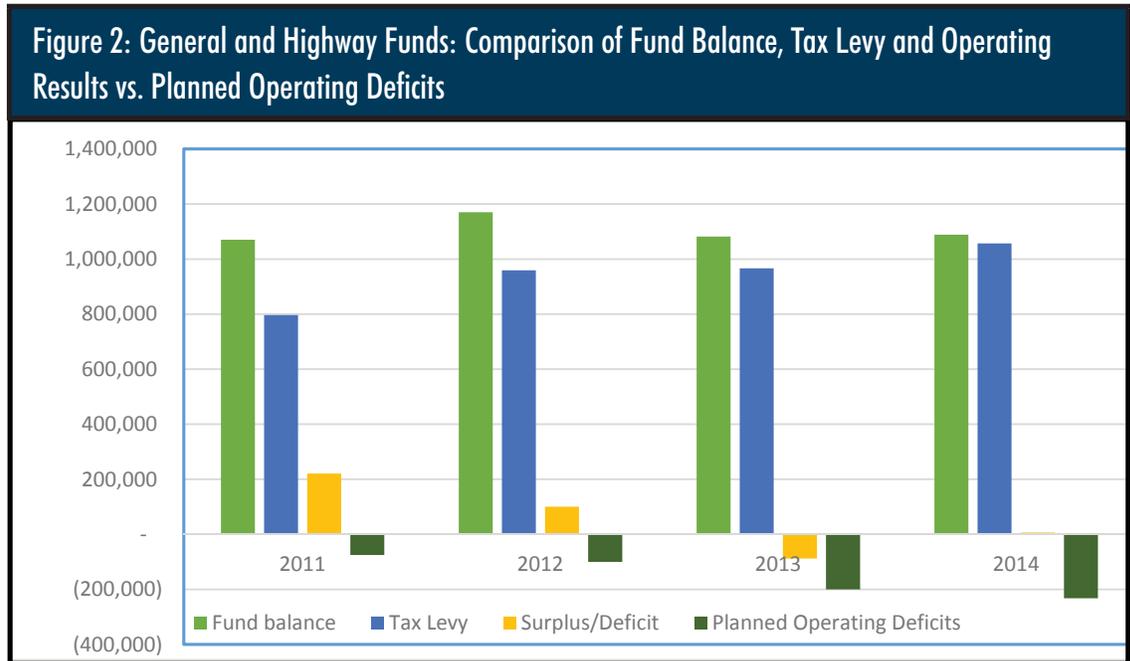
<sup>4</sup> The Town did not use any of the appropriated reserves or \$252,549 (66 percent) of the appropriated surplus funds.

<sup>5</sup> Despite having budgeted to use capital reserve money in 2011 and 2013, the reserve actually increased during 2011 by more than \$25,371 (but did decrease by an unbudgeted \$24,396 in 2012) and did not decrease in 2013.

2012, the general fund had unassigned fund balance of \$455,697, or 62 percent of 2013 appropriations, which exceeded a reasonable cushion necessary for the ensuing fiscal year. The fund incurred operating deficits in 2013 and 2014, using \$129,951 (56 percent) of the \$232,500 appropriated fund balance but none of the appropriated reserves.<sup>6</sup> Unassigned fund balance decreased to \$326,743, or 38 percent of the 2015 budget, which is still a sizeable surplus. Despite the excess surplus funds available, the Board further increased the tax levy and exceeded the tax cap in both the 2014 and 2015 budgets.

Similarly, the highway fund had smaller revenue and expenditure budget variances each year, for a total positive variance of \$242,855 from 2011 through 2014. The Board appropriated \$40,000 in unrestricted fund balance and \$30,000 in reserves in the 2013 fiscal year, and used all but \$18,407 of it. In 2014, the fund had a \$99,669 operating surplus and unassigned fund balance of \$232,234, or 27 percent of 2015 appropriations.

Because the general and highway funds cover the entire Town and have the same tax base, they can be considered on a combined basis to assess financial condition.<sup>7</sup> Figure 2 demonstrates that the Board maintained combined fund balances in the general and highway funds that exceeded the annual tax levy, and operating results were much more favorable than budgeted.



<sup>6</sup> Accounting records show that Town officials did transfer \$100,000 from the reserve as budgeted for renovation costs, but then transferred \$100,000 back into the reserve at year-end because the general fund had sufficient surplus to cover the costs.

<sup>7</sup> The Board may, by resolution, authorize the transfer of surplus moneys from the general fund to the highway fund, within the same tax base; however, it cannot transfer moneys from the highway fund to the general fund.

It is prudent to provide a cushion against fluctuations in operations and unforeseen events by keeping a reasonable amount of fund balance available. However, retaining more fund balance than needed to finance annual expenditures and provide a reasonable cash flow cushion results in residents paying unnecessarily high taxes.

In the 2015 budget, the Board again appropriated \$100,000 of fund balance in the general fund and decreased appropriations by \$49,030, but increased the tax levy by \$77,277. This will likely generate additional budgetary and operating surpluses and result in excess fund balance. In the highway fund, the Board increased appropriations by \$31,337, but appropriated \$50,000 in fund balance, decreased the tax levy by \$45,493 and increased non-tax revenues by \$26,830. If expenditures are close to budget amounts, fund balance may decrease slightly or remain at current levels. Continued use of current budgeting practices will likely result in additional operating surpluses and excessive fund balances and tax levies over time.

Three of the Town's five water districts, all accounted for in the water fund, had similar budget problems and excessive fund balances, which we reviewed with Town officials.

A well thought-out and documented multiyear financial plan would help the Board to make and demonstrate informed decisions that support the fund balance levels it chooses to maintain, or to help gradually and responsibly reduce surplus fund balances without necessitating sharp tax increases in future years.

## **Recommendations**

The Board and Supervisor should:

1. Develop a multiyear financial plan to establish the goals and objectives for funding long-term operating and capital needs. This plan should be monitored and updated on an on-going basis.
2. Adopt policies and procedures to govern budgeting practices and the reasonable level of fund balance to be maintained in each fund to meet the Town's needs.
3. Adopt budgets that include realistic estimates for revenues, expenditures and appropriated fund balance.
4. Formulate a plan for the use of fund balance, such as reducing property taxes, paying off debt, establishing necessary reserves or financing one-time expenditures.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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



**Town of Huron**  
**10880 Lummisville Road**  
**Wolcott, NY 14590**

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May 27, 2015

Office of the State Comptroller  
The Powers Building  
16 W. Main Street, Suite 522  
Rochester, NY 14614

Re: Town of Huron- Response to draft Preliminary Findings of the OSC Report  
Period covered January 1, 2011 – September 18, 2014

The Town Supervisor and the Town Board understand that the Comptroller's top priority is to establish and maintain a strong partnership between its office and local governments. We realize your primary focus and objective of this partnership is to identify areas where local governments can improve their fiscal operations and provide recommendations that will assist them in those improvements.

Our Town Board has worked diligently on our budgets to maintain consistent tax rates. In the past our tax rates have fluctuated and fund balances depleted. During Town Budget public hearings residents have complained about the tax rates when there is a huge increase.

We agree that we need a multiyear financial plan and that this plan should be monitored and updated on an ongoing basis. Your report shows that we have been reducing our fund balance over the last two years. Your recommendation for our fund balance is a subjective opinion that our Town Board will consider in our budgeting process for 2016.

The Town of Huron is a rural agricultural community absent a municipal center. There is nothing in your report that would indicate consideration of the demographics of our community as opposed to those of urban areas which are generally already well established with infrastructure and public services, i.e., water and sewers.

Our budget reflects what has been an aggressive program over the past few years, to bring public water to various areas of our Town. Given the demographics of our Town, these projects are costly with respect to initial outlays for studies and planning. The projects don't

necessarily progress as quickly as initial planning would indicate, complicating the budgeting process from year to year. As an example the Town of Huron currently has two new water districts and one sewer district in development stages, with no clear time table for implementation.

We appreciate the thoroughness and professional expertise of your auditors and their willingness to be of assistance. The Town Supervisor and Town Board will work together on our CAP response to OSC.

Very truly yours,

Laurie Crane<sup>✓</sup>  
Town of Huron Supervisor  
Chief Fiscal Officer

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to review the Town's financial management for the period January 1, 2011 through September 18, 2014. To achieve our audit objective and obtain valid audit evidence, we performed the following procedures:

- We interviewed Town officials to obtain an understanding of the organization, budgeting practices, and the establishment and use of reserve funds.
- We analyzed changes in fund balance and analyzed revenue and expenditure trends for the general, highway and water district funds for the 2009 through 2014 fiscal years.
- We compared budgeted revenue estimates, appropriations and the planned use of surplus fund balance to actual revenues, expenditures and fund balance levels to determine whether budget estimates and fund balance levels were reasonable for the 2011 through 2014 fiscal years.
- We reviewed the 2015 year-to-date budget status reports as of December 31, 2014 to project the operating results and effect on identified financial trends.
- We reviewed the 2015 adopted budget to determine if Town officials changed their budgeting practices or if trends are likely to continue.

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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