

OFFICE OF THE NEW YORK STATE COMPTROLLER



DIVISION OF LOCAL GOVERNMENT
& SCHOOL ACCOUNTABILITY

Town of Jasper

Financial Management

Report of Examination

Period Covered:

January 1, 2012 — April 20, 2015

2015M-150



Thomas P. DiNapoli

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State of New York

Office of the State Comptroller

Division of Local Government and School Accountability

November 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 Jasper, 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*



**State of New York
Office of the State Comptroller**

EXECUTIVE SUMMARY

The Town of Jasper (Town) is governed by an elected Town Board (Board), which is composed of four Board members and a Supervisor. The Board is responsible for the general management and control of the Town's financial affairs. The Supervisor serves as the Town's chief fiscal officer and is responsible for receiving, disbursing and maintaining custody of Town money, maintaining accounting records and providing financial reports to the Board. The Supervisor also serves as the Town's budget officer. The Town's total budgeted appropriations for 2015 are approximately \$867,000, funded primarily with real property taxes, sales tax and State aid.

Scope and Objective

The objective of our audit was to review the Town's financial operations for the period January 1, 2012 through April 20, 2015. Our audit addressed the following related question:

- Did the Board maintain reasonable levels of fund balance and adopt realistic budgets?

Audit Results

The Town is currently experiencing severe fiscal stress. As a result of the Town officials' failure to budget accurately and monitor cash, results of operations and fund balance, the Town's major operating funds (general, highway and sewer funds) are experiencing financial stress. Cash on hand at December 31, 2014 was insufficient to meet the Town's ordinary operating demands, and, in fact, the Town's \$5,869 liability for income taxes withheld from Town employees was almost equal to the total cash assets of the Town.

This cash flow crisis occurred because the sewer fund continually lacked sufficient revenues to finance operations. The sewer fund had an accumulated fund balance deficiency at the end of 2014 totaling \$14,098 and owed the general fund more than \$33,000. The amount due the general fund was the result of current and previous years' interfund advances, which were not repaid at year-end as required.¹

In 2015, the Board raised total real property taxes more than \$50,000 (13 percent) from the prior year and increased sewer rates from \$660 to \$690 annually to improve the financial condition of these funds. However, these measures alone are not enough to return the Town to financial solvency because

¹ The general fund's sole asset was this interfund loan. Because the sewer fund was experiencing financial problems, the advance could not be repaid.

Town officials dramatically overestimated sewer revenue in the 2015 budget,² making it unlikely that the sewer fund's advances can be repaid in the near future.

Additionally, the Board did not maintain fund balance at reasonable levels because it continually used fund balance to finance operations. Overall, the Town had a net fund balance deficiency for the three major operating funds of \$8,392 as of December 31, 2014.³ Further, the Board did not adopt realistic budgets for all operating funds that were structurally balanced. This resulted in depleted fund balances that required the Town to borrow money against future revenues and left the general and highway funds in a position where they could no longer support the sewer fund,⁴ which will further negatively impact the Town's financial condition.

Finally, the Board has not developed a comprehensive multiyear financial plan, which would be a useful tool for the Board to address the Town's poor financial condition and to plan for and finance improvements.⁵ The sooner the Board develops a plan, the sooner the Town will be able to begin to recover financially.

Comments of Local Officials

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.

² The Board increased estimated sewer revenues in its 2015 budget by \$25,323 (26 percent more than the sewer fund actually collected in 2014), which was primarily the result of an error in determining the effect on budgeted revenue of delinquent sewer rents relieved on the tax roll.

³ The general fund balance was \$15,969, while the highway fund had a fund balance deficiency of \$10,263 and the sewer fund had a fund balance deficiency of \$14,098.

⁴ As of December 31, 2014, the general fund had no available cash, while the highway fund had unrestricted cash of less than \$400.

⁵ Guidance is available in the Office of the State Comptroller publication *Local Government Management Guide, Multiyear Financial Planning* at <http://www.osc.state.ny.us/localgov/pubs/lgmg/multiyear.pdf>.

Introduction

Background

The Town of Jasper (Town) is located in Steuben County (County) and serves approximately 1,400 residents. The Town provides services for its residents, including highway maintenance, snow removal, sewer, street lighting and general government support. The Town's total budgeted appropriations for 2015 are approximately \$867,000, funded primarily with real property taxes, sales tax and State aid.

The Town is governed by an elected Town Board (Board), which is composed of four Board members and a Supervisor. The Board is responsible for the general management and control of the Town's financial affairs. The Supervisor serves as the Town's chief fiscal officer and is responsible for receiving, disbursing and maintaining custody of Town money, maintaining accounting records and providing financial reports to the Board. The Supervisor also serves as the Town's budget officer.

Objective

The objective of our audit was to review the Town's financial operations. Our audit addressed the following related question:

- Did the Board maintain reasonable levels of fund balance and adopt realistic budgets?

Scope and Methodology

We examined the Town's financial operations for the period January 1, 2012 through April 20, 2015.

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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

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 is responsible for the Town's financial oversight. To properly oversee the Town's financial operations, the Board must adopt realistic, structurally balanced budgets for all operating funds that provide sufficient recurring revenue to finance recurring expenditures. An important aspect of budget preparation includes a reasonable estimate of the amount of fund balance that will be available at year-end. Sound budgeting practices, coupled with prudent fund balance management, help ensure that sufficient funding will be available to finance current and long-term obligations and address unexpected occurrences without relying on short-term borrowing, depleting fund balance or using interfund advances.

Monitoring the budget against actual results of operations during the year is another critical part of the Board's budgeting responsibilities. Additionally, detailed multiyear plans allow officials to identify developing revenue and expenditure trends, avoid large fluctuations in tax rates and set long-term priorities and goals, rather than responding to needs as they occur.

The Town is currently experiencing severe fiscal stress. Cash on hand at December 31, 2014 was insufficient to meet the Town's ordinary operating demands and the Town's liability for income taxes withheld from Town employees was almost equal to the total cash assets of the Town. This cash flow crisis was caused by the sewer fund continually lacking sufficient revenues to finance operations. The sewer fund had an accumulated fund balance deficiency at the end of 2014 totaling \$14,098 and owed the general fund more than \$33,000 from current and previous years' interfund advances. These advances were not repaid at year-end, as required, and Town officials had no repayment plan in place.⁶ The Board also did not maintain fund balance at reasonable levels because it continually used fund balance to finance operations. As a result, fund balances were depleted, requiring the Town to borrow money against future revenues and leaving the general and highway funds in a position that they can no longer support the sewer fund.⁷

To improve the financial condition of these funds, in 2015 the Board raised total real property taxes more than \$50,000 (13 percent) from

⁶ The general fund's sole asset was this interfund loan. Because the sewer fund was experiencing financial problems, the advance could not be repaid.

⁷ As of December 31, 2014, the general fund had a fund balance of \$15,969 (6 percent of the next year's budget appropriations) and no available cash, while the highway fund had a fund balance deficiency of \$10,263 and unrestricted cash of less than \$400.

the prior year and increased sewer rates from \$660 to \$690 annually. However, these measures alone are not enough to return the Town to financial solvency because Town officials dramatically overestimated sewer revenue in the 2015 budget by including relevied sewer rents that were already recorded as receivable. To ensure the Town improves its fiscal health, the Board needs to develop a multiyear financial plan, adopt structurally balanced realistic budgets, develop a plan to repay advances made to the sewer fund and resolve funding issues that meet the Town’s needs and provide sufficient operating cash flow.

Cash Flow and Interfund Advances

An essential component of financial condition is ensuring that sufficient cash resources are available to pay vendors in a timely manner and meet payroll obligations. Generally, the Town should have enough residual cash at any one time to pay its bills and meet payroll over a 30- to 60-day period.⁸ To ensure that cash is available as needed, Town officials should develop cash flow projections to help identify potential cash deficiencies.⁹

When a fund does not have sufficient cash to meet its current obligations, governing officials are often forced to explore options such as obtaining loans (advances) from other funds or other authorized short-term borrowing options. General Municipal Law authorizes a town to temporarily advance funds that are not immediately needed in one town fund to any other town fund. When Town officials advance money between funds that have different tax bases, the loans must be repaid, with comparable amounts of interest, by the end of the fiscal year in which the loans are made.¹⁰ Interfund advances are different from interfund transfers in that interfund transfers occur between funds with the same taxpayer base, and the transfers are not considered a loan that requires repayment.

Available cash to fund operations as of December 31, 2014 was \$4,825, which is less than 1 percent of 2014 expenditures. Figure 1 illustrates the severity of the Town’s cash flow problems.

⁸ Approximately eight to 16 percent of expenditures

⁹ The Office of the State Comptroller has developed a tutorial to help local governments prepare cash flow projections, available at <http://www.osc.state.ny.us/localgov/training/modules/cashmgmt/four/index.htm>.

¹⁰ The general and highway funds have the same tax base, while the sewer and street lighting funds have unique tax bases.

Figure 1: Analysis of Operating Funds' Cash as of December 31, 2014

	Cash	Expenditures	Cash as a Percentage of Expenditures
General Fund	\$50	\$227,360	Less than 1 percent
Highway Fund ^a	\$373	\$510,008	Less than 1 percent
Sewer Fund	\$1,262	\$116,243	1 percent
Street Lighting Fund	\$3,140	\$5,487	57 percent
Total	\$4,825	\$859,098	Less than 1 percent

^a Highway fund cash does not include \$1,572 of restricted cash associated with a highway fund reserve.

We also found that, as of December 31, 2014, the trust and agency (TA) fund¹¹ had a cash balance of \$1,211 and a recorded liability for federal income taxes withheld from employees of \$5,869. The TA fund did not have sufficient cash available to pay this obligation until January 2015, and the amount due to the federal government was 97 percent of the Town's total cash.¹² Town officials did not prepare cash flow projections to help determine whether adequate money would be available to meet required cash outlays when preparing the budgets.

To address cash deficiencies when they occurred, officials used revenue anticipation notes (RAN), tax anticipation notes (TAN) and interfund advances. Town officials issued a \$35,000 general fund RAN that was outstanding as of December 31, 2013 and repaid in full during 2014. In July 2014, the highway fund issued a \$120,000 RAN to cover expenditures until anticipated Consolidated Local Street and Highway Improvement Program (CHIPS) revenue was received in December 2014. After repaying the RAN with the CHIPS revenues, the highway fund issued a \$25,000 TAN that was repaid in 2015.

These short-term borrowings provided cash flow for the respective operating funds and provided cash to advance to the sewer fund. As of December 31, 2014, the amount the sewer fund owed other funds was 35 percent of total 2014 sewer fund revenues. Because of an estimated sewer revenue budgeting error (see Budgeting and Fund Balance section), it is unlikely the advances can be repaid in the near future. Figure 2 illustrates the interfund advances as of December 31, 2014 and the strain the sewer fund is putting on the rest of the Town's finances.

¹¹ The TA fund accounts for assets held by the Town as an agent for individuals, private organizations or other governments.

¹² Total unrestricted cash of \$6,036 comprised \$50 for the general fund, \$373 for the highway fund, \$1,262 for the sewer fund, \$3,140 for street lighting and \$1,211 for the TA fund.

Figure 2: Analysis of Interfund Advances as of December 31, 2014

	Due From Other Funds	Due To Other Funds	Net Receivable/(Payable)
General Fund	\$33,722	\$17,803	\$15,919
Highway Fund	\$15,948	\$3,155	\$12,793
Sewer Fund	\$50	\$33,672	(\$33,622)
Street Lighting Fund	\$252	0	\$252
Trust and Agency Fund	\$6,434	\$1,776	\$4,658

Budgeting and Fund Balance

It is essential that the Board adopt structurally balanced budgets for all operating funds in which recurring revenues finance recurring expenditures and that reasonable levels of fund balance are maintained. A key measure of the Town's financial condition is its level of fund balance, which is the difference between revenues and expenditures accumulated over time. Maintaining a reasonable level of fund balance is a key element of effective long-term financial planning.

Appropriating fund balance¹³ is a one-time financing source, which is not sustainable because it will eventually deplete the fund. This is an acceptable and reasonable practice when the Town has accumulated an adequate level of fund balance, as long as it leaves enough to provide cash flow and provides a cushion for unforeseen events. A best practice for managing fund balance would be for the Board to adopt a policy that would establish what is considered an adequate level of fund balance to be maintained and how to maintain that level to provide guidance for Town officials during the annual budgeting process.

The Board is also responsible for monitoring the adopted budget throughout the year and making budget modifications, if necessary. To effectively monitor the budget and manage fund balance, it is imperative that the Board receive complete and accurate monthly budget status reports showing budget to actual comparisons.

During our audit period, the Board did not adopt realistic budgets that were structurally balanced for all operating funds. These weaknesses resulted in the depletion of fund balance. Overall, the Town had a net fund balance deficiency for the three major operating funds of \$8,392 as of December 31, 2014.¹⁴ Although the Board requested and received quarterly budget status reports, it was unable to identify the seriousness

¹³ Using unexpended resources from prior years to finance current year budget appropriations.

¹⁴ The general fund balance was \$15,969, while the highway had a fund balance deficiency of \$10,263 and the sewer fund had a fund balance deficiency of \$14,098.

of the Town's financial condition and make budget corrections in a timely manner. The Board also had no policies or procedures in place defining adequate levels of fund balance, procedures to estimate the amount of fund balance that would be available at year end or procedures to estimate revenues and expenditures. As a result, the Town experienced inadequate fund balances, including an absence of reserve funds and the cash flow problems previously described.

Sewer Fund – Over the last three years, this fund has experienced declining fund balance because the Board adopted budgets that planned small operating deficits that were financed by appropriating the fund's minimal fund balance instead of increasing annual sewer rent charges (a recurring revenue).¹⁵ Because the sewer fund incurred slightly larger operating losses than planned for during 2012 and 2013, fund balance declined from \$16,523 at the beginning of 2012 to less than \$6,500 at the end of 2013.

To begin 2014, the sewer fund's minimal fund balance and lack of reserves left the fund ill-prepared to make up for revenue shortfalls or unexpected expenditures. The Board-adopted 2014 budget also planned for an operating deficit totaling \$1,950. However, the fund incurred an actual operating loss of \$19,380. This much larger than anticipated loss was the result of overestimating revenues by approximately \$7,600 and unanticipated repair costs of approximately \$9,800. As a result, the sewer fund had an ending fund balance deficiency of \$14,098, which was equivalent to approximately 15 percent of that year's total revenues.

The effects of the fund deficiency were compounded because the fund's assets were mainly unpaid sewer rent receivables, which could not readily be used to meet the fund's operating needs. As described later the sewer fund's financial stress has also impacted the financial health of the general and highway funds. Figure 3 summarizes the effect of the Board's budgeting decisions on the sewer fund.

Figure 3: Sewer Fund Operating Results and Fund Balance

	2012	2013	2014
Beginning Fund Balance	\$16,523	\$14,822	\$5,282 ^a
Revenues	\$104,905	\$95,954	\$96,863
Expenditures	\$106,606	\$104,294	\$116,243
Operating Surplus/(Deficit)	(\$1,701)	(\$8,340)	(\$19,380)
Ending Fund Balance/(Deficiency)	\$14,822	\$6,482	(\$14,098)
Budgeted Fund Balance Appropriation	\$7,650	\$1,950	\$0
Allowable Fund Balance Appropriation	\$7,650	\$1,950	\$0
a 2014 beginning fund balance includes a \$1,200 prior period adjustment to reduce fund balance.			

In 2015, the Board increased the annual sewer rent charges from \$660 to \$690 per unit. Although this rate increase should generate approximately \$4,300 more in sewer revenues, the Board increased estimated revenues in its 2015 budget by \$25,323 or 26 percent more than the sewer fund actually collected in 2014. This budgeted increase was primarily the result of an error in determining the effect on budgeted revenue of delinquent sewer rents relieved on the tax roll. As a result, the Board-adopted 2015 sewer fund budget was not structurally balanced, which will further negatively impact this fund's financial condition.

We pointed out the budgeting error to the Supervisor during our audit fieldwork. The Board has not developed a plan to reduce expenditures or increase revenues to compensate for this projection error, which will approximately double the current fund balance deficiency.

The Supervisor said that, if wind farm host fees are received in 2015,¹⁶ she will use these funds as revenue in the sewer fund.¹⁷ Even if this plan was a permissible option and the revenues are received in December 2015 as hoped,¹⁸ it will not be in time to provide cash flow for 2015 operations. Therefore, it is likely the fund will need additional loans for cash flow. Loans to the sewer fund have already negatively affected the Town's other operating funds and the Board has not made any plans to repay these loans. It is questionable whether these other funds will have available cash assets to advance money to the sewer fund without resorting to short-term borrowings.

General Fund – The general fund ended two of the last three years with an increasing fund balance deficiency. This was the result of the 2012 budget, which appropriated fund balance to finance a portion

¹⁵ Annual sewer rates have remained unchanged since 2009.

¹⁶ The Board is expecting to receive \$48,600 as part of a host community agreement for a windmill project, which is due to the Town in December 2015. The agreement begins in December 2015, one year from when the wind turbines went online. Payments are to be made annually within 60 days of year-end.

¹⁷ For purposes of this report, we assumed that the Town is authorized to enter into the host community agreement and the terms and conditions are enforceable. However, it is our view that it is questionable under the current circumstances whether host fees may be used for sewer district purposes. We have expressed the view that, unless a statute provides otherwise and except for revenues received as a result of a part-town or special district function or activity, as a general principle, revenues received by a town are credited to the town-wide general fund (e.g., see OSC Opinion Nos. 2006-10 and 78-1063). Because the agreement is silent as to the use of the host payments by the Town, in our view it is unclear that the money would be treated as anything but a town-wide general fund revenue. There is no provision in New York State Town Law that authorizes a town to pay the costs of a sewer district from the town-wide general fund (e.g., see OSC Opinion No. 95-17).

¹⁸ The wind farm operator has until January 31, 2016 to make this payment.

of planned expenditures, even though the general fund had a fund balance deficiency and had no available cash.¹⁹ Instead of increasing real property taxes in 2013 to make the fund solvent, the Board reduced taxes and overestimated payments in lieu of taxes (PILOT) revenues, which caused an unplanned operating deficit of \$15,851 and increased the fund balance deficiency to \$24,058. To sustain operations, the Town issued a \$35,000 RAN.

The Board included an appropriation for the repayment of the RAN in the 2014 budget,²⁰ resulting in a significant increase in real property taxes (\$42,387, or 27 percent). As a result, the general fund experienced an operating surplus of \$40,027 at the end of 2014 and had its first positive fund balance, totaling approximately \$16,000, in the last three years.²¹ Figure 4 summarizes the effect that the Board's ineffective budgeting had on the general fund's fund balance.

Figure 4: General Fund Operating Results and Fund Balance

	2012	2013	2014
Beginning Fund Balance/(Deficiency)	(\$7,040)	(\$8,207)	(\$24,058)
Revenues	\$209,564	\$207,602	\$267,387
Expenditures	\$210,731	\$223,453	\$227,360
Operating Surplus/(Deficit)	(\$1,167)	(\$15,851)	\$40,027
Ending Fund Balance/(Deficiency)	(\$8,207)	(\$24,058)	\$15,969

The positive operating results of 2014 did not fully eliminate the general fund's financial concerns. The amount of fund balance available to begin 2015, though positive, was still minimal. Additionally, fund balance was not made up of cash that is readily available to meet operational needs. Instead, it is composed of an interfund receivable from the sewer fund (see Cash Flow and Interfund Advances). As a result, the general fund will need continued annual operating surpluses before the general fund's financial stress is fully eliminated.

The Board-adopted 2015 budget has the opportunity to continue the progress made in 2014. The Board increased appropriations and planned to finance them with increased revenues from the PILOT while lowering real property taxes and not using fund balance.²² The Board also took a conservative approach and did not include

¹⁹ In 2011, the general fund received interfund advances from the highway (\$3,096) and street lighting (\$4,100) funds to provide cash for Town operations.

²⁰ RAN repayments are short-term debt recorded as a payable on the balance sheet.

²¹ The positive fund balance would be eliminated and result in a small fund balance deficiency of \$1,834 if the fund paid back the previous years' interfund advances.

²² PILOT payments for the Town, Steuben County and Jasper-Troupsburg School District increased from \$20,000 for the first three years to \$147,775 in 2013, according to the PILOT schedule. However, the increase was received in 2014.

any windmill host fees as an estimated revenue in the 2015 budget. However, as previously stated, if the host payment is received in 2015, the Supervisor intends to use these funds to pay for sewer fund operations.

Highway Fund – In both 2013 and 2014, the Board did not adopt realistic highway fund budgets, which left the fund with a fund balance deficiency of \$10,263 and virtually no cash (\$373)²³ at December 31, 2014, despite issuing a \$25,000 TAN.²⁴ This fiscal stress was the result of underestimating expenditures in both 2013 and 2014 and overestimating the amount of fund balance available to finance the 2014 budget. Even with this difficult financial situation, in its 2015 budget the Board planned to use \$2,287 in fund balance to finance operations when none was available. Figure 5 summarizes the effect of the Board’s poor budgeting on the highway fund.

Figure 5: Highway Fund Operating Results and Fund Balance

	2013	2014
Beginning Fund Balance	\$73,321	\$7,405
Actual Revenues	\$461,803	\$492,340
Expenditures	\$527,719 ^a	\$510,008
Operating Surplus/(Deficit)	(\$65,916)	(\$17,668)
Ending Fund Balance/(Deficiency)	\$7,405	(\$10,263)
Less: Restricted Fund Balance	\$1,572	\$1,572
Less: Assigned Fund Balance	\$5,833	\$0
Less: Unassigned Fund Balance Deficiency	\$0	(\$11,835)
Budgeted Fund Balance Appropriation	\$50,860	\$2,287
Allowable Fund Balance Appropriation	\$5,833	\$0

^a Expenditures include an unbudgeted bridge repair totaling \$97,239. The bridge had deteriorated over a period of time and the cost could have been anticipated.

The problem experienced by the highway fund is increased because its assets are almost entirely composed of an interfund receivable that is not available to finance operations (see Cash Flow and Interfund Advances section). Furthermore, the use of the TAN to provide cash flow for 2014 expenditures was inappropriate. New York State Local Finance Law stipulates that the proceeds from a TAN may only be used for the purposes for which the taxes are to be levied, which, in this case, was 2015 expenditures.

²³ Highway fund cash does not include \$1,572 of restricted cash associated with a highway fund reserve.

²⁴ TANs are short-term borrowings that are based on future real property tax revenues. The Board resolution stated that the borrowing was in anticipation of collecting 2015 real property taxes and would be used to pay 2014 expenditures.

As a result of the Town officials' failure to budget accurately and monitor cash, results of operations and fund balance, all three of the Town's major operating funds are experiencing financial stress. After reviewing the 2015 budget, we cautioned Town officials about paying expenditures before anticipated revenues are received because we anticipate another cash flow problem in the fourth quarter of 2015. At that time, the sewer fund will again be significantly short of cash and may need to rely on the slowly recovering general and highway funds to pay its bills.

The 2015 Board-adopted budget increased the real property taxes by \$55,052 (29 percent) from the previous year. However, budgeted appropriations are \$40,000 less than the average expenditures for the last two years. Because appropriations may not be realistic when compared to historical averages, the Board will have to strictly monitor budget variances.

Multiyear Financial Planning

Multiyear financial planning is a tool Town officials can use to improve the budget development process. It is important for Town officials to develop a comprehensive multiyear financial plan to estimate the future costs of ongoing services and future capital needs. Effective multiyear planning projects operating and capital needs and financing sources over a three- to five-year period. Multiyear financial plans enable Town officials to identify developing revenue and expenditure trends, set long-term priorities and goals, consider the effect of near-term budgeting decisions on future fiscal years and avoid large fluctuations in tax rates.

Such plans also allow Town officials to assess the effects and merits of alternative approaches to address financial issues, such as the use of fund balance to finance operations and the funding and use of reserves funds. Saving for future projects, acquisitions and other allowable purposes is an important planning consideration for local governments. Reserve funds provide a mechanism for saving money to finance all or part of future infrastructure, equipment and other requirements. Reserve funds can also provide a degree of financial stability by reducing reliance on indebtedness or accumulated fund balance to finance capital projects, acquisitions and certain other expenditures.

Long-term financial plans work in conjunction with adopted policies and procedures to provide necessary guidance to employees on the financial priorities and goals set by the Board. Any long-term financial plan must be monitored and updated on an ongoing basis to provide a reliable framework for preparing budgets and to ensure that its decisions are guided by the most current and accurate information available.

The Board has not developed a comprehensive multiyear financial plan, which would be a useful tool for the Board to address the Town's poor financial condition and to plan for and finance improvements.²⁵ In developing a plan, the Board must consider the amount of fund balance available for appropriation to reduce the next year's taxes, while maintaining a reasonable amount of fund balance to provide a cushion for unforeseen expenditures or revenue shortfalls. It is evident that without this plan, the Board has not prudently used or reserved fund balance to ensure adequate levels are maintained for future sustainability. The sooner the Board develops a plan, the sooner the Town will be able to begin to recover financially.

Recommendations

The Board should:

1. Develop and adopt structurally balanced realistic budgets and a formal, comprehensive multiyear plan for restoring fund balance, establishing reserves as needed and resolving the cash flow deficiencies in the general, highway and sewer funds.
2. Develop a plan for the sewer fund to repay the temporary advances.
3. Better monitor Town funds' financial activities and compare actual revenues and expenditures to budgets throughout the year.
4. Ensure that short term borrowings are in conformance with Local Finance Law.
5. Develop and adopt a multiyear financial plan for long-term operating and capital needs. This plan should be monitored and updated on a continuing basis.

The Supervisor should:

6. Prepare an annual cash flow projection, update it monthly during the year and provide it to the Board to assist it in making informed financial decisions.

²⁵ Guidance is available in the OSC publication entitled *Local Government Management Guide, Multiyear Financial Planning* at <http://www.osc.state.ny.us/localgov/pubs/lmgm/multiyear.pdf>.

APPENDIX A

RESPONSE FROM TOWN OFFICIALS

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

Town Of Jasper

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October 30, 2015

Edward Grant, Jr.
Chief Examiner
The Powers Building
16 West Main Street
Suite 522
Rochester, NY 14614-1608

Dear Mr. Grant:

The Town of Jasper is in receipt of the preliminary draft audit. We are in the process of reviewing and we will address the issues in the audit. A corrective action plan will be forwarded in a timely manner.

Sincerely,

Lucille Kernan

Supervisor, Town of Jasper

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to review the Town's financial operations for the period January 1, 2012 through April 20, 2015. To achieve our objective and obtain valid audit evidence, we performed the following procedures:

- We reviewed Board minutes to assess the Town's control environment, including oversight of financial operations.
- We interviewed Town officials to gain an understanding of financial operations and the budgeting process.
- We interviewed Town officials to determine what processes were in place and to gain an understanding of the Town's financial situation and budget.
- We evaluated the Town's financial operations for the risk of potential fraud, theft and professional misconduct.
- We analyzed financial data filed with OSC to evaluate fund balance trends.
- We reviewed the Town's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.
- We reviewed budgets, budget-to-actual reports and interfund transfer schedules to assess the Town's current financial position and prior-year trends in the Town's financial position.
- We reviewed the Town's adopted budgets for 2012 through 2015 to determine the amount of fund balance appropriated.
- We reviewed the Town's budget-to-actual variances for 2012 through 2014 to determine if the variances were significant.

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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