

# Town of Dayton

## Fund Balance Management

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JANUARY 2020

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

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# Report Highlights

## Town of Dayton

### Audit Objective

Determine whether the Board has properly managed fund balance.

### Key Findings

- The Board did not properly manage fund balance as the town-wide (TW) general fund and TW highway fund had deficit unrestricted fund balances during our audit period.
- The Board did not develop and adopt comprehensive written multiyear financial and capital plans and written fund balance and reserve fund policies to help guide the budget development process.
- Outstanding interfund cash advances from 2016 have not been repaid as required.

### Key Recommendations

- Evaluate the financial activity in the TW general fund and TW highway fund and establish a plan to eliminate deficit fund balances and ensure that those funds are self-sustaining.
- Develop and adopt comprehensive written multiyear financial and capital plans and written fund balance and reserve fund policies.
- Repay the interfund cash advances as required.

Town officials generally agreed with our recommendations and indicated they planned to initiate correction action. Appendix B includes our comment on an issue raised in the Town's response.

### Background

The Town of Dayton (Town) is located in Cattaraugus County (County).

The Town is governed by an elected Town Board (Board) composed of five members including the Town Supervisor (Supervisor). The Board is responsible for the general oversight of the Town's operations and finances. The Supervisor is the chief financial officer and is responsible for the day-to-day financial operations.

The Town provides various services to its residents. Because the Village of South Dayton is within the Town's boundaries, the Town's services are accounted for in four major operating funds.

Beginning January 1, 2018, the Board entered into an agreement with a certified public accounting firm (Firm) to assist the Supervisor in performing her financial duties.

#### Quick Facts

Population	1,800
2019 Budgeted General Fund* Appropriations	\$222,100
2019 Highway Fund* Appropriations	\$426,100

\*Includes town-wide and part-town funds

### Audit Period

January 1, 2016 – June 4, 2019

# Fund Balance Management

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## What are Proper Fund Balance Management Practices?

Prudent fund balance management helps 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 sudden tax increases or drastic budget cuts.

A board is responsible for making financial decisions in managing its fund balance that are in the best interest of the town and its taxpayers.

The estimation of fund balance is an integral part of the town's annual budget process because the board is responsible for retaining enough unrestricted fund balance at year-end to provide a reasonable financial cushion for unexpected events and cash flow in the ensuing year. If the amount retained is too low, the town may not have a sufficient financial cushion for emergencies and as a result, the board may need to make interfund transfers and temporarily borrow cash from another fund to support financial operations. However, the board must repay the cash advance by the fiscal year-end in which it was initiated.<sup>1</sup> The board may also appropriate a portion of fund balance as a financing source in the next year's budget to reduce the tax levy.

Reasonable budgetary revenue and appropriation estimates, based on historical trends and known current and/or reasonably anticipated conditions, help ensure that the amount of fund balance appropriated is reasonable and sufficient to finance the town's financial operations. By closely monitoring the actual financial activity during the year, in comparison to the budget and historical trends, the board can reasonably estimate the impact on the fund balance and take prompt and appropriate actions such as modifying the budget and reducing previously anticipated spending, when necessary.

Town officials can also legally set aside or reserve portions of fund balance to finance costs for a specific purpose. Adopting written fund balance and reserve fund policies that address the appropriate levels of fund balances and reserves to be maintained provides the board with guidelines to use during the budget process and helps ensure fund balance is properly managed. Also, adopting written multiyear financial and capital plans enables officials to identify developing revenue and expenditure trends, establish long-term priorities and goals and consider the impact of current budgeting decisions on future fiscal years' fund balance.

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<sup>1</sup> New York State General Municipal Law Section (GML) 9-a

## Fund Balance Was Not Properly Managed

We evaluated the financial condition of the Town's four operating funds<sup>2</sup> for the 2016 through 2018 fiscal years. We found the town-wide (TW) general fund and the TW highway fund had deficit unrestricted fund balances whereas the part-town (PT) general fund and the PT highway fund had excessive unrestricted fund balances.

Town-Wide Funds – The TW general fund and TW highway fund reported deficit unrestricted fund balances in 2016 through 2018. However, the Board balanced these funds' annual budgets with appropriated fund balance amounts that did not exist.

**Figure 1: TW – General Fund**

	2016	2017	2018
<b>Appropriated Fund Balance</b>	\$23,000	\$20,000	\$10,000
<b>Actual Unrestricted Fund Balance Available (Deficit)</b>	(\$48,593)	(\$43,146)	(\$17,924)

**Figure 2: TW – Highway Fund**

	2016	2017	2018
<b>Appropriated Fund Balance</b>	\$13,000	\$15,000	\$6,000
<b>Actual Unrestricted Fund Balance Available (Deficit)</b>	(\$3,573)	(\$102,956)	(\$85,136)

This occurred because the Board did not reasonably estimate fund balance amounts as part of the annual budget process. As a result, at each year-end from 2016 through 2018, the Board had no, or minimal, available fund balance in these funds for any unexpected events.

**Figure 3: TW General Fund – Unrestricted Fund Balance**

	2016	2017	2018
<b>Ending Unrestricted Fund Balance</b>	(\$43,146)	(\$17,924)	\$3,683
<b>Next Year's Budgeted Appropriations</b>	\$191,010	\$181,960	\$194,264
<b>Unrestricted Fund Balance as a Percentage of Next Year's Appropriations</b>	-23%	-10%	2%

**Figure 4: TW Highway Fund – Unrestricted Fund Balance**

	2016	2017	2018
<b>Ending Unrestricted Fund Balance</b>	(\$102,956)	(\$85,136)	(\$92,743)
<b>Next Year's Budgeted Appropriations</b>	\$170,950	\$146,400	\$172,620
<b>Unrestricted Fund Balance as a Percentage of Next Year's Appropriations</b>	-60%	-58%	-54%

<sup>2</sup> Town-wide general, part-town general, town-wide highway, part-town highway

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During this same time period, the Board lowered the real property tax levy by 3.4 percent in the TW general fund and by 3.5 percent in TW highway fund, further reducing potential resources to address these funds' deficit fund balances.

Consequently, this hindered the ability of the Town-wide funds to repay outstanding amounts borrowed or otherwise owed to other funds. For example, the Town purchased a highway truck in 2016 totaling approximately \$151,000 which was not included in TW highway fund budgetary appropriations. Because the fund had a deficit fund balance, it had no available money to pay for the truck. As a result, the Board borrowed approximately \$103,000 from the part-town (PT) highway fund during 2016 and recorded an interfund loan for \$103,000 between the TW highway fund and PT highway fund to reflect this transaction. This cash advance was statutorily required to have been paid back by the end of 2016 with interest, but was not, due to the TW highway fund's deficit fund balance. The Firm told us they have a plan to have this repaid between the funds within five years. However, we informed the Supervisor and the Firm that statute<sup>3</sup> requires this money to be paid back within the same fiscal year it was borrowed. They were unaware of the requirement. Further, the Board has not adopted the Firm's plan and neither the Firm nor the Supervisor could provide us a copy of the repayment plan. As of the end of our audit fieldwork, no repayments have been made. Our prior Report of Examination<sup>4</sup> found similar interfund activity and recommended that the Board develop a repayment plan and address fund deficits.

Part-Town Funds – While the TW general and highway funds experienced deficit fund balances, the PT general and highway funds had positive unrestricted fund balances in each year. The Board also generally appropriated fund balance each year from these funds to balance annual budgets and finance operations. For the PT general fund budget, the Board appropriated \$2,000 for 2016, \$1,500 for 2017 and nothing for 2018. For the PT highway fund budget, the Board appropriated \$30,000 for 2016, \$32,000 for 2017 and \$15,000 for 2018. However, because both of these funds experienced annual operating surpluses, no appropriated fund balance was actually used to finance expenditures in any of those years. Appropriating fund balance that is not needed to finance operations is misleading and diminishes transparency to the taxpayers.

From 2016 through 2018, the PT general fund and PT highway fund's unrestricted fund balances increased. As of December 31, 2018, the PT general fund and PT highway fund held 384 percent and 124 percent, respectively, of unrestricted fund balance compared to the next year's budgeted appropriations. Our prior Report of Examination<sup>5</sup> found similar issues and recommended that the Board assess the fund balance in these funds and use them in a manner that benefits Town taxpayers, such as reducing property taxes or to reasonably fund necessary reserves.

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3 GML Section 9-a

4 *Town of Dayton – Financial Condition* (2013M-90)

5 *Ibid.*

**Figure 5: PT General Fund – Unrestricted Fund Balance**

	2016	2017	2018
<b>Beginning Unrestricted Fund Balance</b>	\$82,040	\$91,860	\$99,524
<b>Operating Surplus</b>	\$9,820	\$7,664	\$7,404
<b>Prior Period Adjustment</b>	\$0	\$0	\$180
<b>Ending Unrestricted Fund Balance</b>	\$91,860	\$99,524	\$107,108
<b>Next Year’s Budgeted Appropriations</b>	\$30,160	\$26,760	\$27,869
<b>Unrestricted Fund Balance as a Percentage of Next Year’s Appropriations</b>	305%	372%	384%

**Figure 6: PT Highway Fund – Unrestricted Fund Balance**

	2016	2017	2018
<b>Beginning Unrestricted Fund Balance</b>	\$253,804	\$279,557	\$282,054
<b>Operating Surplus</b>	\$25,753	\$2,497	\$32,680
<b>Ending Unrestricted Fund Balance</b>	\$279,557	\$282,054	\$314,734
<b>Next Year’s Budgeted Appropriations</b>	\$228,400	\$243,960	\$253,487
<b>Unrestricted Fund Balance as a Percentage of Next Year’s Appropriations</b>	122%	116%	124%

We reviewed the 2019 adopted budget and assessed its reasonableness by comparing it with the Town’s historical trends and found certain significant changes. For example, the Board obtained a tax cap override and significantly increased the real property tax levy in the TW funds. The TW general fund increased by 20 percent and the TW highway fund increased by 29 percent, resulting in real property tax levies of approximately \$163,000 and \$173,000, respectively. The Board also eliminated the real property tax levies in the PT funds and appropriated a combined total of fund balance of approximately \$56,000 instead.

### **The Board Did Not Establish Multiyear Financial and Capital Plans or Reserve and Fund Balance Policies**

The Board did not develop or adopt comprehensive written multiyear financial and capital plans to help guide the Board and Town officials on how they may consider financing specific future costs. Such plans could be useful tools to outline the Board’s intentions for financing future capital improvements and maintaining the existing infrastructure. The Board lacked certain information necessary to adequately prepare and adopt these plans. For example, during the 2019 budget development process, the Highway Superintendent provided an equipment inventory to the Supervisor that identified the inventory’s condition and what should be replaced or repaired. However, the Supervisor did not provide this to the Board.

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The Board could have used this information to assist with planning for long-term road maintenance and highway equipment replacement costs. However, this inventory was not used in the Board's financial planning. Further, the Board and Highway Superintendent also do not prepare the annual highway expenditure agreement<sup>6</sup> which could further assist the Board in its multiyear planning.

The Board also did not adopt a written fund balance policy or reserve fund policy detailing the level of fund balance and specific reserves it deemed necessary, including funding levels, and a plan for the periodic review of these funds. During our audit period, the Board annually budgeted in the TW highway fund for transfers to a capital equipment reserve totaling \$25,000. However, no reserve has been established for this purpose. Further, due to the TW highway fund's annual operating deficits and deficit fund balance, no actual money was transferred from the fund to a capital reserve.

Without a written multiyear financial and capital plan and policies to guide the Board regarding fund balance and reserves, it is difficult for the Board to properly manage the Town's fund balance and assess alternative approaches to financial issues, such as the depletion and accumulation of unrestricted fund balance or using fund balance to finance annual operations. Further, the Board is not fully aware of its long-term capital needs, including potential costs and funding sources to properly plan and monitor the Town's finances.

### **The Board Did Not Provide Sufficient Oversight**

While the Board receives monthly budget status reports, the reports are not sufficient to review actual financial activity compared to the budget.<sup>7</sup> The reports do not include original and modified budget columns. Therefore, it is difficult for the Board to discern where budget modifications were made based on its approval and diminishes the Board's ability to review historical trends and improve future budgeting estimates.

For example, in 2018, the Board documented its approval for budget modifications in its meeting minutes throughout the year. However, due to the insufficient budget status reports, certain budget modifications that the Board approved were incorrect (e.g., decreasing estimated revenue in the budget when actually additional grant money was received and estimated revenue should have been increased) and in other cases, resulted in negative budgetary accounts. We

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6 NYS Highway Law Section 284

7 Refer to a separate audit report we issued, *Town of Dayton – Supervisor's Records and Reports (2019M-189)* for additional information.

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also identified modifications that the Firm made that were not authorized by the Board. In some cases, they were made to correct the Board's errors. We note that the net budgetary impact of these modifications was not overly significant. The Firm told us that at times, they make budget modifications when they know they need to be done based on the Firm's historical practices with other towns in the area.

## **What Do We Recommend?**

The Board should:

1. Develop and adopt budgets that reasonably estimate amounts of available fund balance to appropriate.
2. Evaluate the financial activity in the TW general fund and TW highway fund and establish a plan to eliminate deficit unrestricted fund balances and ensure that those funds are self-sustaining (recurring revenues align with recurring expenditures).
3. Ensure that the outstanding interfund loans are repaid.
4. Develop, adopt and routinely update comprehensive written multiyear financial and capital plans and use these plans during the budget development process.
5. Obtain the Highway Superintendent's equipment inventory and evaluate and use this inventory during the budget development process.
6. Work with the Highway Superintendent to prepare and adopt the statutorily required annual highway expenditure agreement.
7. Develop, adopt and routinely update comprehensive written fund balance and reserve policies.
8. Ensure that it receives monthly budget status reports which are sufficient to review actual financial activity compared to the original and modified budgets.
9. Ensure that budget modifications are accurate, properly approved and are properly recorded.

# Appendix A: Response From Town Officials

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**Town of Dayton**  
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South Dayton, NY 14138

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Buffalo Regional Office  
295 Main Street, Suite 1032  
Buffalo, NY 14203-2510

01/15/2020

Audit Report Title: Fund Balance Management  
Audit Report Number: 2019M-221

The Town of Dayton is in receipt of the draft report of the NYS Comptroller's Office for the audit period of January 1, 2016 – June 4, 2019. It is a priority of the Town Supervisor and Board to provide transparency and accountability to its taxpayers and we appreciate the suggestions for improvement in attaining these goals. The Town concurs with the recommendations included in the report, and will address the findings and our corrective actions in the same order that the findings and recommendations appear in your report.

The Board should:

**Audit Recommendation:**

Develop and adopt budgets that reasonably estimate amounts of fund balance to appropriate.

**Response:**

The Board agrees that estimating fund balance appropriately is important to preparing a fiscally sound budget. Beginning with the 2019 budget, the first budget developed by the newly elected Town Supervisor, the Town changed its budgeting process. The process now includes budget requests from department heads, and a thorough workshop where all accounts in the budget are analyzed and discussed by the Town Supervisor, Town Board, Highway Superintendent, Town Clerk, accounting firm and the Town Attorney. Detailed records are used to assist in estimating budget amounts. The Town prepared its 2020 budget using this same process and plans to continue this process with future budgets.

**Audit Recommendation:**

Evaluate the financial activity in the TW general fund and TW highway fund and establish a plan to eliminate deficit unrestricted fund balanced and ensure that those funds are self-sustaining.

**Response:**

The Board has established a plan to eliminate the deficit unrestricted fund balances. In the Town's 2019 budget, the first for the current Town Supervisor, a line item was added to both the general fund townwide and highway townwide funds specifically for the reduction of the deficit in the funds. The amount was listed in the budget under the item "deficit reduction". As stated in the report, this caused the Town Board to override the tax cap to increase the tax rate to begin eliminating the deficit. The Town was aware that this deficit should be eliminated within a one year time frame, but did not want to penalize the taxpayers and determined that a five year repayment plan was a more equitable solution.

**Audit Recommendation:**

Ensure that the outstanding interfund loans are repaid.

**Response:**

With the additional item in the budget for deficit reduction, additional taxes were assessed. The additional monies will be used to reduce the deficit and the corresponding interfund loans between the townwide and part town funds.

**Audit Recommendation:**

Develop, adopt and routinely update comprehensive written multiyear financial and capital plans and use these plans during the budget development process.

**Response:**

The Board will work toward preparing the plans to begin use with the development of the 2021 budget and will continue to routinely update the plans.

**Audit Recommendation:**

Obtain the Highway Superintendent's equipment inventory and evaluate and use this inventory during the budget development process.

**Response:**

The Board will work with its newly elected Highway Superintendent to prepare an equipment inventory for its use in the preparation of the 2021 budget.

**Audit Recommendation:**

Develop, adopt and routinely update comprehensive written fund balance and reserve policies.

**Response:**

The Board will work to develop and routinely update fund balance policies to begin use with the development of the 2021 budget.

**Audit Recommendation:**

Ensure that it receives monthly budget status reports which are sufficient to review actual financial activity compared to the original and modified budgets.

**Response:**

The Board will continue to ensure the receipt of monthly budget status reports sufficient to review actual financial activity. The Board does receive and review these reports on a monthly basis.

See Note 1 Page 11
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**Audit Recommendation:**

Ensure that budget modifications are accurate, properly approved and are properly recorded.

**Response:**

The Board approves budget transfers and modifications on a monthly basis as needed based upon information received in the monthly budget to actual reports received.

Sincerely,

Angie Mardino-Miller  
Town of Dayton Supervisor

## Appendix B: OSC Comment on the Town's Response

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### Note 1

After our audit fieldwork ended, the Firm updated the monthly budget status reports to include the information that we recommended.

## Appendix C: Audit Methodology and Standards

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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<sup>8</sup> and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Board members, Town officials and a Firm employee and reviewed Board meeting minutes, our prior audit<sup>9</sup> of the Town, monthly financial reports provided to the Board and the Town's agreements with the Firm to:
  - Gain an understanding of the Town's budgeting and accounting practices, reporting and oversight of its financial operations.
  - Determine whether written multiyear financial and capital plans or reserve and fund balance policies were developed and adopted and used during the budget development process.
- We obtained original budgets and compared them to actual results of financial activity from 2016 through 2018 to assess whether the budgets were reasonably estimated. We also obtained the 2019 original budget and assessed whether it was estimated in a manner consistent with historical trends.
- We reviewed budget modifications and interfund activity to determine whether they were appropriate and properly approved. We compared 2016 through 2018 budget-to-actual reports to identify trends and changes in budgeting practices and operating results and its impact on fund balance.
- We reviewed the Town's 2016 through 2019 tax cap filings to determine whether there was an override and if so, whether it was properly approved.

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

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.

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<sup>8</sup> We also issued a separate audit report, *Town of Dayton – Supervisor's Records and Reports* (2019M-189)

<sup>9</sup> *Town of Dayton – Financial Condition* (2013M-90)

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A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided 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 the CAP available for public review in the Town Clerk's office.

## Appendix D: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://www.osc.state.ny.us/localgov/regional_directory.pdf)

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

[www.osc.state.ny.us/localgov/costsavings/index.htm](http://www.osc.state.ny.us/localgov/costsavings/index.htm)

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

[www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm](http://www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm)

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

[www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm](http://www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm)

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

[www.osc.state.ny.us/localgov/planbudget/index.htm](http://www.osc.state.ny.us/localgov/planbudget/index.htm)

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

[www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf](http://www.osc.state.ny.us/localgov/pubs/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/localgov/finreporting/index.htm](http://www.osc.state.ny.us/localgov/finreporting/index.htm)

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

[www.osc.state.ny.us/localgov/researchpubs/index.htm](http://www.osc.state.ny.us/localgov/researchpubs/index.htm)

### **Training** – Resources for local government officials on in-person and online training opportunities on a wide range of topics

[www.osc.state.ny.us/localgov/academy/index.htm](http://www.osc.state.ny.us/localgov/academy/index.htm)

## Contact

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[www.osc.state.ny.us/localgov/index.htm](http://www.osc.state.ny.us/localgov/index.htm)

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