

# Town of Freedom

## Financial Management

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FEBRUARY 2022

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

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# Report Highlights

## Town of Freedom

### Audit Objective

Determine whether the Town of Freedom (Town) Board (Board) adopted realistic budgets and maintained reasonable levels of fund balance.

### Key Findings

The Board did not develop and adopt realistic budgets or determine how much fund balance should be maintained. As a result, the Town maintained unreasonable fund balance levels, which ultimately resulted in a higher-than-necessary tax levy.

The Board:

- Consistently underestimated revenues in the general and highway funds. As a result, unrestricted fund balance in these funds increased by 45 percent during the past three years to approximately \$735,000 as of December 31, 2020, or 69 percent of the 2021 fund appropriations.
- Did not establish and adopt comprehensive, written, multiyear financial and capital plans or fund balance and reserve policies.

### Key Recommendations

- Adopt annual budgets that contain reasonable revenue estimates.
- Develop and adopt comprehensive, written, multiyear financial and capital plans and fund balance and reserve policies.

Town officials agreed with our recommendations and indicated they planned to initiate corrective action.

### Background

The Town is located in Cattaraugus County. The Town is governed by an elected five-member Board, which includes the Town Supervisor (Supervisor). The Board is responsible for the general management and oversight of the Town's operations, including overseeing the Town's finances.

The Supervisor serves as the chief financial officer and budget officer. The Town's bookkeeper assists the Supervisor by maintaining accounting records, generating financial reports and assisting with budget development.

The Town's two main operating funds are the general and highway funds, and it also has two special district funds for lighting and fire protection.

#### Quick Facts

##### 2021 Appropriations

General Fund	\$381,650
Highway Fund	\$687,100
Population	2,400

### Audit Period

January 1, 2018 – November 1, 2021

# Financial Management

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## What Is Proper Financial Management?

A town's financial condition is a primary factor in determining its ability to continue providing services to residents. Town boards are responsible for adopting realistic budgets, based on historical trends and other known factors, to help ensure that recurring revenues finance recurring expenditures.

Town boards also are responsible for maintaining a reasonable amount of fund balance as a cushion for unforeseen expenditures and cash flow. A town with sound financial health can maintain sufficient cash flow to pay bills and other obligations when they become due without relying on other resources, such as one-time revenues or fund balance.

A reasonable, stable fund balance is one element of effective long-range planning. If the amount retained is excessive, a town board might be imposing more taxes than necessary to provide services. Town boards can legally set aside, or reserve, a portion of fund balance to finance future costs for specific purposes (e.g., capital improvements or vehicle replacements).

When a town board adopts written policies that address maintaining appropriate levels of fund balance and reserves, it provides guidelines for the board to use during the budget process and helps ensure the board is properly managing fund balance. Also, town boards should adopt comprehensive, written, multiyear financial and capital plans to help town officials identify developing revenue and expenditure trends, establish long-term priorities and goals and consider the impact that current budgeting decisions will have on future fiscal years' fund balance.

Town boards should develop a written policy that communicates to taxpayers why funds are being set aside in reserves. The policy should include the boards' financial objectives and optimal funding levels for the reserves and conditions under which the assets will be used. Town boards also should periodically assess the reasonableness of the amounts accumulated in their reserves.

## The Board Adopted Unrealistic Budgets and Did Not Properly Manage Fund Balance

The Town has four operating funds: general, highway, street lighting and fire protection. We evaluated the financial condition of the two main operating funds, the general and highway funds, and found that the Board consistently underestimated revenues.

We compared estimated revenues and appropriations to actual revenues and expenditures for the 2018 through 2020 fiscal years. During that period, the two main operating funds generated a combined total of \$285,000 of operating

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...[T]he two main operating funds generated a combined total of \$285,000 of operating surpluses.

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surpluses. The general fund accounted for more than \$219,000 (77 percent) of the operating surpluses.

General Fund – While expenditure trends from 2018 through 2020 were generally reasonable, we found that annual operating surpluses were attributed mainly to underestimated revenues (Figure 1).

**Figure 1: General Fund Budget-to-Actual and Operating Results**

Revenues	2018	2019	2020	Totals
Estimated	\$325,000	\$335,000	\$348,000	<b>\$1,008,000</b>
Actual	\$404,000	\$413,000	\$438,000	<b>\$1,255,000</b>
Variance	\$79,000 20%	\$78,000 19%	\$90,000 21%	<b>\$247,000 20%</b>
Appropriations	2018	2019	2020	Totals
Budgeted	\$355,000	\$365,000	\$378,000	<b>\$1,098,000</b>
Actual	\$342,000	\$347,000	\$347,000	<b>\$1,036,000</b>
Variance	\$13,000 4%	\$18,000 5%	\$31,000 9%	<b>\$62,000 6%</b>
Operating Surplus	\$62,000	\$66,000	\$91,000	<b>\$219,000</b>

Some examples of underestimated revenues included:

- Sales Tax Distribution – The total amount estimated for the three-year period was \$388,500 while actual revenues were \$566,200, resulting in a difference of \$177,700 (46 percent).
- Mortgage Tax – The total amount estimated for the three-year period was \$45,000 while actual revenues were \$87,300, resulting in a difference of \$42,300 (94 percent).

The Supervisor and a Board member told us the Board relied on the estimates provided by the Town’s bookkeeper. The bookkeeper told us that each year she underestimated general fund revenues, which included the sales and mortgage tax line items, to provide resources if revenues fell short of estimates, or if expenditures were greater than anticipated. However, officials should use a contingency account for this purpose, which would help ensure the accuracy of and provide transparency for individual line items in the budget.

Highway Fund – The highway fund had a three-year operating surplus totaling approximately \$67,000 attributed mostly to underestimated revenues (Figure 2).

**Figure 2: Highway Fund Budget-to-Actual and Operating Results**

Revenues	2018	2019	2020	Totals
Estimated	\$592,000	\$646,000	\$653,000	<b>\$1,891,000</b>
Actual	\$711,000	\$731,000	\$654,000	<b>\$2,096,000</b>
Variance	\$119,000 17%	\$85,000 12%	\$1,000 <1%	<b>\$205,000 10%</b>
Appropriations	2018	2019	2020	Totals
Budgeted	\$612,000	\$666,000	\$673,000	<b>\$1,951,000</b>
Actual	\$671,000	\$679,000	\$679,000	<b>\$2,029,000</b>
Variance	(\$59,000) 4%	(\$13,000) 5%	(\$6,000) 9%	<b>(\$78,000) 6%</b>
Operating Surplus (Deficit)	\$40,000	\$52,000	(\$25,000)	<b>\$67,000</b>

We compared the 2018 through 2020 estimated revenues for the highway fund to actual revenues during that time and found approximately \$140,000 of equipment sales revenue<sup>1</sup> that was not included in the original adopted budgets. This accounted for 68 percent of the underestimated revenues in the highway fund's budgets.

The Supervisor told us that equipment sales were not included in the original budgets because, at the time, the Board did not know whether the used equipment would be sold or traded-in to offset the cost of newer replacement equipment. One Board member told us that multiyear financial and capital plans that included expected equipment replacements would have helped the Board in its budget development process. We agree, and had the Board developed comprehensive, written, multiyear financial and capital plans, these plans would have assisted officials while planning and budgeting for equipment sales and replacements.

Because the Board did not adopt realistic budgets that included accurate estimates of expected revenues, the Town had annual operating surpluses in the general and highway funds. This increased unrestricted fund balance in the general fund by approximately \$167,000 (37 percent) and in the highway fund by approximately \$61,000 (55 percent).

As of January 1, 2018, the general and highway funds had a combined total of unrestricted fund balance of approximately \$507,000. As of December 31, 2020, this amount had grown by approximately 45 percent to \$735,000, or 69 percent of the 2021 fund appropriations. However, this does not include approximately \$279,000 maintained in two established reserve funds.<sup>2</sup>

<sup>1</sup> The Town did not have any reported equipment sales for 2020.

<sup>2</sup> The Town established two capital reserve funds: one in the general fund for general building alterations and improvements and one in the highway fund for equipment replacement.

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Furthermore, if current spending and revenue trends continue for the remainder of 2021, unrestricted fund balance will increase. The bookkeeper projected the Town will have operating surpluses in the general and highway funds with a combined total of \$100,000 in 2021.

The Supervisor told us that the Town takes a conservative approach to budgeting for revenues and appropriations to reduce the financial burden that the Town could experience if revenue estimates are not met and/or if some expenditures are greater than anticipated.

While a conservative approach to budgeting is understandable, when the Board consistently underestimates revenues, it does not provide transparency to residents during the budget process, and taxpayers pay more than is necessary for services. For example, on December 31, 2020, unrestricted fund balance in the general fund was \$563,000, which was equivalent to approximately one and half times of the general fund's 2021 budget (approximately \$382,000). However, from 2018 to 2021 the Board continued to unnecessarily increase the general fund tax levy in total by approximately \$20,000 or 14 percent.

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

The Board did not develop or adopt comprehensive, written, multiyear financial and capital plans to help guide it while considering how to finance future costs. Such a plan would be a useful tool to the Board while developing its intentions for financing future capital improvements and maintaining existing infrastructure.

The Board also did not adopt a comprehensive written fund balance policy or reserve fund policy to determine needed amounts for fund balance and specific reserves and to establish plans for periodically reviewing these funds. Consequently, the annual operating surpluses for the general and highway funds have been accumulated primarily as unrestricted fund balance.

The Supervisor told us that he and the Board have not established comprehensive, written, multiyear financial or capital plans or fund balance and reserve policies because the Town has consistently been in good financial shape, and they did not see the need for the plans or policies. However, he told us that he saw the merits in having such plans and would encourage the Board to consider their creation and adoption. Adopting these plans will also provide transparency to the Town's taxpayers.

Without comprehensive, written, multiyear financial and capital plans and fund balance and reserve policies, it is difficult for the Board to properly manage the Town's fund balance. Also, without these plans and policies it would be difficult for the Board to assess alternative approaches to financial issues, such as accumulating unrestricted fund balance or using fund balance to finance annual operations.

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The Board also did not adopt a comprehensive written fund balance policy or reserve fund policy. ...

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## What Do We Recommend?

The Board should:

1. Develop and adopt annual budgets that contain reasonable estimates of revenues based on historical and/or other known factors.
2. Develop, adopt and routinely update comprehensive, written, multiyear financial and capital plans and use them during the budget development process.
3. Develop, adopt and routinely update comprehensive, written, fund balance and reserve policies.



# Appendix A: Response From Town Officials

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## **TOWN of FREEDOM**

**NEW YORK**

**Dustin Bliss-Supervisor**

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January 31, 2022

Melissa A. Myers, Chief Examiner  
Division of Local Government and School Accountability  
Office of the New York State Comptroller  
Regional Office  
295 Main Street, Suite 1032  
Buffalo, NY 14203

Dear Ms. Myers,

After reviewing your report and meeting with [REDACTED] I have found nothing inaccurate or incomplete with the audit of our offices findings. Our town government appreciates the work that [REDACTED] did and the input that he provided on how our town government can better manage and protect the taxpayer's money.

Our town board is having discussions regarding multi-year financial and capital plans, being more accurate when estimating revenues and capital costs, the need to create a contingency fund, set limits for unrestricted fund balances, as well as, creating a reserve fund policy. We are also in the process of establishing a procurement policy and an investment policy.

Best regards,

Dustin E. Bliss, Supervisor  
Town of Freedom

## Appendix B: 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 and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Board members and Town officials who were responsible for financial operations and reviewed Board meeting minutes to gain an understanding of the Town's budget development and monitoring process.
- We traced the general and highway funds' balance sheet accounts and a sample of revenue and expenditure accounts from the Town's accounting records to the 2019 and 2020 annual financial reports that the Town submitted to our office and to associated bank statements.
- For the 2018 through 2020 fiscal years, we compared budget estimates to actual results and reviewed adopted budgets to determine whether total budgeted revenues and appropriations were reasonable. We reviewed the two main operating funds to determine which individual revenue and appropriation estimates had the largest budget-to-actual differences. We then interviewed Town officials to determine whether there were reasons for any large or unusual budget variances.
- We reviewed the 2021 budget and year-end estimated operating results. We compared the Town's estimates to our own to determine whether the Town's budgeting practices had continued.
- We assessed the year-end fund balance amounts of the two main operating funds for the 2018 through 2020 fiscal years and analyzed the results of operations.

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. 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 C: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf](http://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](http://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](http://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](http://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](http://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](http://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](http://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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### **Training** – Resources for local government officials on in-person and online training opportunities on a wide range of topics

[www.osc.state.ny.us/local-government/academy](http://www.osc.state.ny.us/local-government/academy)

## Contact

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