



Town of Leicester

Financial Management

2025M-2 | May 2025

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Report Highlights

Audit Objective

Determine whether the Town of Leicester (Town) Board (Board) effectively managed fund balance.

Key Findings

The Board did not effectively manage the Town’s fund balance and continued to unrealistically estimate revenues and appropriations in the adopted budgets. The Board did not correct the deficiencies noted in our prior audit (*Budgeting and Financial Oversight* (2015M-158), released November 2015), adopt written fund balance or reserve policies and did not properly establish reserves. In addition, the Board did not ensure it received up-to-date, accurate financial reports in a timely manner, which hindered its adoption of realistic budgets and multiyear financial or capital plans.

As a result, officials maintained significant unrestricted fund balance in the town-wide (TW) and town-outside-village (TOV) funds that as of January 1, 2024 were sufficient to fund the entire 2024 budgeted appropriations. Also, the water fund had a deficit fund balance of \$80,597.

We project that the Town will have small operating surpluses in 2024, which will increase the significant fund balances. The Board continued to unrealistically estimate revenues and appropriations in the 2025 budget, which will likely result in operating surpluses that will further increase the significant fund balances in the general and highway TW and TOV funds.

Recommendations

The audit report includes nine recommendations that, if implemented, will improve the Town’s financial management.

Town officials generally agreed with our findings and indicated they will initiate corrective action. Appendix B includes our comments on the Town’s response letter.

Audit Period

January 1, 2021 – December 16, 2024

Background

The Town is located in Livingston County (County), and the Village of Leicester is located within the Town. The elected five-member Board, comprised of the Town Supervisor (Supervisor) (who started in January 2024) and four Board members, is responsible for the general management and control of the Town’s financial affairs, which includes adopting the annual budget and establishing financial policies. The Town used three accounting firms to provide bookkeeping services during the audit period, with the most recent starting in July 2024.

The Town has six operating funds including the general fund, TW (general fund TW); general fund, TOV (general fund TOV); highway fund, TW (highway fund TW); highway fund, TOV (highway fund TOV); water fund and lighting fund. The TW funds are funded primarily by real property taxes, while the general fund TOV is funded primarily by sales tax, and the highway TOV fund is funded primarily by real property taxes and Consolidated Local and Highway Improvement Program (CHIPs) revenues. The water fund is funded primarily with metered water sales and debt service charges.

Quick Facts

Total 2024 Appropriations for TW and TOV funds	\$1.2 million
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Total Fund Balance for TW and TOV funds as of December 31, 2023	\$2.2 million
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Financial Management

We provided recommendations in our prior audit report¹ to help the Board improve financial operations. The Board did not implement adequate corrective action to address the deficiencies. Therefore, the deficiencies remained and impaired its ability to effectively manage the Town's fund balance and operations.

How Should a Board Manage Fund Balance?

Fund balance, which represents the difference between revenues and expenditures accumulated over time, is a key measure of a town's financial condition. Maintaining a reasonable amount of unrestricted fund balance within operating funds is an important financial consideration for town officials because it is available for appropriation to reduce taxes, fund one-time expenditures and other uses. Accumulating funds in legally established reserves allows town officials to save for certain future expenditures.

To properly manage fund balance, a town board (board) should adopt written fund balance and reserve policies that address the amount of unrestricted fund balance to be maintained in each fund from year to year and why money is set aside in reserves along with their optimal funding levels. Combining a reasonable level of unrestricted fund balance with specific legally established reserve funds provides resources for both unanticipated events and other identified or planned needs, such as future infrastructure and equipment needs. In addition, the board should adopt written multiyear financial and capital plans that assess long-term needs and alternative approaches to financial operations. A comprehensive written multiyear financial plan projects revenues and expenditures for several years in the future to illustrate what will happen to the town's ability to pay for and provide services, while written capital plans should have a clear mission to maintain and improve the town's capital assets over time. To assist local officials, the New York State Office of the State Comptroller (OSC) provides various publications and training tools, including our Local Government Management Guide (LGMG) entitled *Multiyear Capital Planning and Multiyear Financial Planning* (Figure 1).

The board should use these policies and plans as guidelines to develop and adopt reasonably estimated and structurally balanced budgets based on historical trends and other known factors, in which recurring revenues finance recurring expenditures. New York State Town Law (Town Law) Section 107 requires that the preliminary budget show, by fund, proposed appropriations and estimated revenues, a fund balance estimate and the amount of taxes to be levied. The fund balance estimate is required to provide a breakdown of amounts encumbered,² amounts set aside for reserves, amounts appropriated to finance the upcoming year's budget and the remaining estimated unappropriated, unrestricted fund balance for each fund. Accurate budget estimates help ensure the tax levy is sufficient to meet needs and is not greater than necessary.

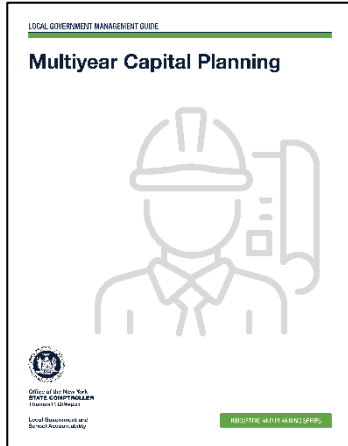
Town officials can learn more about budgeting by reviewing OSC's *Understanding the Budget Process LGMG* (Figure 1).

¹ *Town of Leicester – Budgeting and Financial Oversight* (2015M-158), released November 2015.

² A process of accounting for and setting aside a portion of available appropriation for a certain future obligation. For more information see our presentation: *Accounting for Encumbrances*, <https://www.osc.ny.gov/local-government/academy/accounting-encumbrances>.

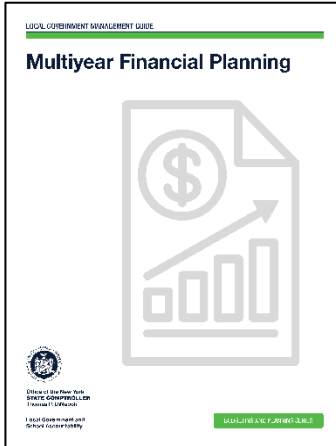
FIGURE 1

OSC Publications



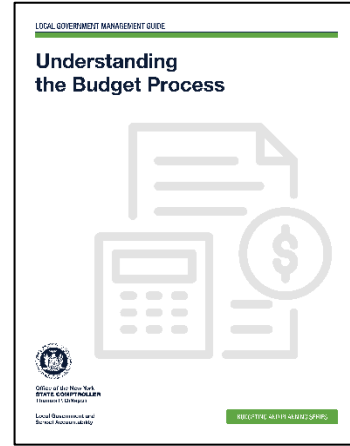
LGMG – Multiyear Capital Planning

<https://www.osc.ny.gov/files/local-government/publications/pdf/multiyear-capital-planning.pdf>



LGMG – Multiyear Financial Planning

<https://www.osc.ny.gov/files/local-government/publications/pdf/multiyear-financial-planning.pdf>



LGMG – Understanding the Budget Process

<https://www.osc.ny.gov/files/local-government/publications/pdf/understanding-the-budget-process.pdf>

Once the board adopts the budget, it should monitor it throughout the year. Budget status reports provide the board and other decision makers with information about actual year-to-date revenues and expenditures compared to budget estimates. The board should ensure that the supervisor provides up-to-date, timely and accurate financial reports that enable it to monitor operations and help effectively manage fund balance. To manage fund balance when one fund does not have sufficient resources, the board, pursuant to New York State General Municipal Law (GML) Section 9-a, may authorize cash advances between town funds that are repaid, with interest, as soon as money is available, but no later than the close of the fiscal year in which the advance was made.

The Board Did Not Effectively Manage Fund Balance

The Board's TW and TOV 2021 through 2023 budgets made it appear as though it needed to appropriate fund balance. However, the Town incurred operating surpluses and none of the appropriated fund balance (TW totaling \$218,363 and TOV totaling \$39,671) was used to finance expenditures so unrestricted fund balance continued to grow.

The Board's preliminary budgets did not always include a breakdown of fund balance, as required and the adopted budgets planned for operating deficits that made it appear as though it needed to

appropriate fund balance and increase real property taxes by 6 percent in the TW and TOV funds to close projected budget gaps by underestimating revenues in both the TW and TOV funds and overestimating appropriations in the TW funds. Also, the Supervisor and another Board member told us that they did not always have up-to-date, timely, accurate financial reports for 2023 and 2024 to monitor the budget and the Town's fund balances.

Over the last three years, the general and highway TW and TOV funds' unrestricted fund balance as of December 31st were sufficient to fund the entire TW and TOV funds' upcoming year's budget appropriations (Figure 2).

Figure 2: Unrestricted Fund Balance as a Percentage of the Upcoming Year's Budget Appropriations

Year Ended December 31st	TW Funds	Percentage	TOV Funds	Percentage
2021	\$788,787	102%	\$371,465	102%
2022	\$871,872	113%	\$461,349	114%
2023	\$949,728	111%	\$565,983	146%

The Board did not adopt a written fund balance or reserve policy or comprehensive multiyear financial or capital plans, including an equipment replacement schedule, and did not develop and adopt realistic budgets, which contributed to the accumulation of unrestricted fund balance. Although the TW funds reported reserves totaling \$472,289 and the highway fund TOV reported reserves totaling \$24,000, officials did not provide resolutions establishing any reserves.

We project that the Town will have small operating surpluses in the TW and TOV funds in 2024, which will increase the significant fund balances. The Board continued to unrealistically estimate revenues and appropriations in the 2025 budget, which will likely result in operating surpluses that will further increase the significant fund balances in the TW and TOV funds.

Conversely, the water fund's fund balance declined to a deficit of \$80,597 at the end of 2023, because:

- The Board-adopted budgets underestimated appropriations,
- Water loss from unidentified and unresolved leaks resulted in more water purchased than billed to customers, and
- A significant \$180,000 billing adjustment for water previously purchased by, but underbilled to, the Town.

To pay for expenditures in 2022 and 2023, the water fund required interfund advances totaling \$90,000 that were not paid back by the end of the fiscal year as required by GML Section 9-a. Although two Board members told us they did not have a formal plan to address the deficit, in February 2023 the Board increased the water billing rate to cover the additional costs for the \$180,000 billing adjustment. However, the Supervisor told us that the increased water rate is structured to recover the \$180,000 owed three years after the Town's final payment is due. Therefore, the water fund will not be able to promptly repay the interfund advances. We estimate that the interfund advances will not be repaid until 2028.

The Board generally did not provide adequate explanations for the deficiencies identified.

Without comprehensive written multiyear financial and capital plans including an equipment replacement schedule, a written fund balance policy to establish a reasonable amount of unrestricted fund balance to maintain and funding properly established reserves, it is difficult for the Board to properly manage the Town's fund balance. Also, without these plans, 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.

What Do We Recommend?

The Board should:

1. Adopt a written fund balance policy to establish the reasonable amount of fund balance to maintain.
2. Develop, adopt, and periodically update comprehensive written multiyear financial and capital plans (including an equipment replacement schedule) that sets the goals and objectives for long-term operating and capital needs.
3. Plan for future needs by establishing a written reserve policy and properly creating appropriate reserves.
4. Develop a plan to reduce unrestricted fund balance in a manner that benefits Town taxpayers. For example, unrestricted fund balance can be used to:
 - Fund needed reserves,
 - Reduce real property taxes, and
 - Fund one-time expenditures such as capital improvements.
5. Develop a written plan to address the deficit fund balance in the water fund.
6. Develop and adopt budgets that include reasonable estimates based on current data and historical trends.
7. Ensure that all interfund borrowing is repaid as required by GML Section 9-a.

The Supervisor should:

8. Prepare and attach a complete fund balance schedule to the proposed budget, per Town Law Section 107.
9. Ensure accurate financial records are maintained and adequate reports are provided to the Board in a timely manner.

Appendix A: Response From Town Officials



Town of Leicester

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Phone: 585-382-3231 Fax: 585-382-9766

www.townofleicester.org Hours: Monday – Thursday 8am – 4 pm

Town Supervisor, Richard White Deputy Supervisor, Jason Yasso
Town Council Gerald Hull, Karen Roffe, Matthew Durbin,
Town Clerk/Tax Collector, Amy Neumann Court Clerk, Kimberly Reitz
Justices, Wayne Scofield, Sarah Durbin Assessor, Gregg Torrey
Highway Superintendent, Russell Page Code Officer, Sean Sullivan

Supervisors Response to OSC Audit:

May 16, 2025

I would like to start by complementing your staff on their professionalism and total business persona during our audit. Audits naturally invoke a certain amount of stress and anxiety, your staff was calming but professional.

That being said, I was disappointed with the narrow scope of the audit. The objective of the audit only focused on the Towns Management of Fund Balance. During the entrance interview I was asked if I had any financial areas of concern. I expressed a major concern with the finances of our water districts. Our residents were paying twice for water due to an underbilling that was discovered in year one but was allowed to continue for several years. A second accounting error resulted in the water fund having an additional \$80,597.00 deficit which at this point appears to be the result of the lack of proper accounting oversight.

See
Note 1
Page 8

In reference to your Keys findings;

1. I agree the town did not properly manage the fund balance, nor did it correct the deficiencies noted in your prior audit.
2. The unrestricted fund balance needs to be properly accounted for and this will be corrected. I'm unable to speak as to why this amount was carried in the past, this amount will be evaluated as we develop your suggested policies and procedures. If you consider the NYS electric vehicle mandate alone, small towns like Leicester could be facing close to 1M dollars for infrastructure just to charge the vehicles. Figuring in the extra cost of the electric vehicle, loss of production and other unforeseen expenses, this is a lot to add to the tax roll at a time our residents may be paying to convert their private vehicles over.

See
Note 2
Page 8

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3. The 2024 budget did have a small operating surplus. This was my first term with numerous financial issues to attend with, so we spent very conservatively until our exact condition was determined. We have equipment that was scheduled to be replaced that was put on hold etc.. Unfortunately, a comfortable understanding of our position was not available when the 2025 budget was drafted, but the board was comfortable enough that fund balance was used as part of the 2025 budget.
 4. Your report alluded to the financial issues with the water funds being the result of water loss. All water systems have water loss, and yes, our system had some water leaks. However, I believe the information obtained thus far shows most of the issues with the water district were caused by inappropriate decisions and poor accounting practices! In my estimate, the water deficits will be corrected and repaid to all parties by the end of 2027 at the latest. (Exploration continues)

See Note 3 Page 8

In Summary:

I agree with your findings in general and even though your scope was narrowly focused, the town board is committed to following your recommendations across the board. Unfortunately, the town has relied on our accounting service providers alone and internal policy and procedures were not established and/or followed. We knew this prior to this audit and had plans to accommodate your recommendations when received. Implementation of this plan will be covered later with the submittal of our Corrective Audit Plan. Thank you again.

Richard W White
Leicester Town Supervisor

Appendix B: OSC Comments on the Town's Response

Note 1

We considered the Supervisor's statement when determining our audit objective. The report discussed the deficit fund balance in the water fund and that the Supervisor and another Board member told us that they did not always have up-to-date, timely and accurate financial records for 2023 and 2024 to monitor the budget and the Town's fund balance. Furthermore, while the audit objective is focused on managing fund balance, the audit addressed several aspects of financial management including budgeting, interfund borrowing, water operations and financial reporting.

Note 2

The Board should develop comprehensive written multiyear financial and capital plans that include considerations for future infrastructure, vehicle and equipment needs. The Board should also consider funding needed reserves to save for planned future needs.

Note 3

The Board's meeting minutes recorded significant water loss percentages ranging from 25 to 43 percent.

The report also addressed other contributing causes for the deficit water fund balance including the Board-adopted budgets underestimating appropriations and the \$180,000 billing adjustment for water previously purchased by, but underbilled to, the Town.

Appendix C: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. We obtained an understanding of internal controls that we deemed significant within the context of the audit objective and assessed those controls. Information related to the scope of our work on internal controls, as well as the work performed in our audit procedures to achieve the audit objective and obtain valid audit evidence, included the following:

- We interviewed Town officials and reviewed Board meeting minutes to gain an understanding of their financial management processes, including budgeting, fund balance maintenance and multiyear capital and financial planning.
- For fiscal years 2021 through 2023, we compared budget estimates to actual results to determine whether budgets were reasonable. We reviewed variances in the four main operating funds (general fund TW, highway fund TW, general fund TOV and highway fund TOV) and one special district (water). We also reviewed the 2024 and 2025 adopted budgets to determine whether trends in the Town's budgeting practices continued.
- We reviewed available budget documents and interviewed Town officials to determine whether fund balance estimates were included in the preliminary budget.
- We analyzed 2021 through 2023 fiscal year-end unrestricted fund balance for the general fund TW and general fund TOV and highway funds and the water fund and calculated unrestricted fund balance as a percentage of the upcoming year's budget to determine whether unrestricted fund balance was reasonable.
- We reviewed January through November 2024 bank statements to identify revenues and expenditures and estimated December 2024 revenues and expenditures to project whether the Town would have operating surpluses or deficits in 2024.
- We determined whether reserves were properly established.
- We interviewed Town officials and reviewed Board meeting minutes to determine whether monthly financial reports were provided to the Board.
- We estimated when the water fund would pay back the interfund advance by projecting the fund's cash flow.

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 D: Resources and Services

Regional Office Directory

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

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

www.osc.ny.gov/local-government/publications

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

www.osc.ny.gov/local-government/fiscal-monitoring

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

www.osc.ny.gov/local-government/publications

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

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www.osc.ny.gov/files/local-government/publications/pdf/cyber-security-guide.pdf

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