

# Town of Solon

## Financial Management

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FEBRUARY 2019

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

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# Report Highlights

## Town of Solon

### Audit Objective

Determine whether the Board established a fund balance and reserve policy and long-term plans to address the Town's operational and capital needs in the general and highway funds.

### Key Findings

- From December 31, 2014 through December 31, 2017, unrestricted fund balance in the general fund increased by \$106,230 (110 percent). During the same time period, general fund expenditures were \$108,691 (17 percent) below budgeted appropriations.
- During the same period, unrestricted fund balance in the highway fund increased by \$50,007 (24 percent).
- Although Town officials have concerns about upcoming financial or capital needs that will require significant funding, they have not developed fund balance or reserve policies or multiyear financial or capital plans.

### Key Recommendations

- Develop and adopt a fund balance and reserve policy that establishes the level of fund balance and reserves to be maintained.
- Develop and adopt a comprehensive multiyear financial and capital plan.

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

### Background

The Town of Solon (Town) is located in Cortland County.

The Town is governed by an elected Town Board (Board) composed of a Town Supervisor (Supervisor) and four Board members. The Board is responsible for the general management and control of the Town's financial operations, including adopting the annual budget and establishing financial policies. The Supervisor serves as the chief executive and chief fiscal officer. The Town's Highway Superintendent, a separately elected position, is primarily responsible for the maintenance and repair of Town roads, vehicles and equipment.

#### Quick Facts

Population	1,079
2018 General and Highway Fund Tax Levy	\$394,287
2018 General Fund Appropriations	\$218,368
2018 Highway Fund Appropriations	\$473,015

### Audit Period

December 31, 2014 – April 24, 2018

# Financial Management

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## **Why Are Fund Balance and Reserve Policies and Multiyear Plans Important?**

A board is responsible for making sound financial decisions that are in the best interest of the town and its taxpayers. Town officials can legally set aside or reserve portions of fund balance to finance future costs for a specific purpose. Town officials may also appropriate a portion of fund balance to help finance the subsequent year's budget. Adopting a fund balance and reserve policy that addresses the appropriate levels of fund balance and reserves to be maintained from year-to-year provides the board with guidelines during the budget process. If fund balance levels become excessive, funds that could benefit the town are not being used, thereby placing an unnecessary burden on town taxpayers.

The board should create comprehensive multiyear financial and capital plans that set long-term objectives and goals. Long-term planning and prudent fund balance management help ensure that funding will be available to finance current and long-term obligations and address unexpected occurrences without relying on short-term borrowing or depleting fund balance. These plans and policies are not only an important planning tool for the board but an effective means of communicating the board's goals and priorities to town taxpayers.

## **The Board Did Not Establish a Fund Balance and Reserve Policy or Multiyear Plans**

The Board did not adopt a fund balance and reserve policy or create comprehensive multiyear financial and capital plans.

From December 31, 2014 through December 31, 2017, general fund unrestricted fund balance increased by \$106,230 (110 percent). Revenues were generally in line with budgeted estimates with only a slight variance of \$5,768 (0.9 percent) more received than budgeted over the last three years. Expenditures were \$108,691 (17 percent) below budgeted appropriations for the same three-year period, resulting in an increase totaling \$111,799 (126 percent) in general fund unappropriated, unrestricted fund balance. This occurred because of the Board's conservative budgeting practices for general fund expenditures.

Over the same three-year period, highway fund unrestricted fund balance increased by \$50,007 (24 percent). Revenues exceeded budgeted estimates by \$151,847 (14 percent), and expenditures exceeded budgeted appropriations by \$93,101 (9 percent). These variances were primarily driven by unbudgeted Federal Emergency Management Agency (FEMA) aid revenue of \$149,553 in 2015 and the unbudgeted purchase of a new loader for \$108,565 in 2016. Town officials told us they had been discussing the need for a new loader but had not budgeted to purchase one in 2016. However, they decided to make the purchase during 2016 when the option materialized to purchase a new loader

at a price they believed was in the best interest of the Town and its taxpayers. When adjusted for these one-time occurrences, revenues were generally in line with budgeted estimates with only a slight variance of \$2,294 (0.2 percent) more received than budgeted, and expenditures were slightly less than budgeted appropriations by \$15,464 (1.4 percent) during the last three years.

**Figure 1: Fund Balances**

	December 31, 2014	December 31, 2017	Dollar Increase (Decrease)
<b>General Fund</b>			
<b>Total Fund Balance</b>	\$96,997	\$203,227	\$106,230
<b>Less: Nonspendable and Restricted Fund Balances</b>	\$0	\$0	\$0
<b>Unrestricted Fund Balance</b>	\$96,997	\$203,227	\$106,230
<b>Less: Appropriated Fund Balance for the Ensuing Year's Budget</b>	\$8,229	\$2,660	(\$5,569)
<b>Unappropriated, Unrestricted Fund Balance</b>	\$88,768	\$200,567	\$111,799
<b>Ensuing Year's Appropriations</b>	\$208,723	\$218,368	\$9,645
<b>Unappropriated, Unrestricted Fund Balance as a Percentage of Ensuing Year's Appropriations</b>	43%	92%	N/A
<b>Highway Fund</b>			
<b>Total Fund Balance</b>	\$208,559	\$258,566	\$50,007
<b>Less: Nonspendable and Restricted Fund Balances</b>	\$0	\$0	\$0
<b>Unrestricted Fund Balance</b>	\$208,559	\$258,566	\$50,007
<b>Less: Appropriated Fund Balance for the Ensuing Year's Budget</b>	\$8,740	\$71,591	\$62,851
<b>Unappropriated, Unrestricted Fund Balance</b>	\$199,819	\$186,975	(\$12,844)
<b>Ensuing Year's Appropriations</b>	\$353,327	\$473,015	\$119,688
<b>Unappropriated, Unrestricted Fund Balance as a Percentage of Ensuing Year's Appropriations</b>	57%	40%	N/A

The Supervisor told us that when he was elected, his intent was to build up fund balance to allow for the repair and purchase of equipment as needed and, going forward, his intentions are to direct a greater portion of real property taxes to the highway fund. The Board appropriated \$71,591 in fund balance toward the 2018 highway fund budget. Additionally, it apportioned a greater percentage of

the Town's real property tax levy in 2018 toward the highway fund to increase appropriations for road maintenance and repair by \$45,000. Although the allocation of real property taxes shifted significantly between 2017 and 2018, the total levy remained relatively stable and was within the statutory tax levy limit.<sup>1</sup>

**Figure 2: Real Property Tax Levy**

	2014	2015	2016	2017	2018
<b>General Fund</b>	\$145,625	\$143,534	\$142,872	\$148,352	\$99,298
<b>Highway Fund</b>	\$218,637	\$226,103	\$232,353	\$232,353	\$294,989
<b>Other Funds</b>	\$44,500	\$46,000	\$46,000	\$30,000	\$31,000
<b>Combined Levy</b>	\$408,762	\$415,637	\$421,225	\$410,705	\$425,287
<b>Dollar Increase (Decrease)</b>	N/A <sup>a</sup>	\$6,875	\$5,588	(\$10,520)	\$14,582
<b>Percentage Increase (Decrease)</b>	N/A	1.7%	1.3%	(2.5%)	3.6%

a Not applicable

Although Town officials told us they have concerns about recent upcoming financial and capital needs, they have not established any reserves to finance future financial or capital needs. For example:

- The Town contracts for their fire protection. Under the current contract, the Town agreed to set aside \$5,000 per year toward the future construction of a one-truck fire station. Town officials are considering demolishing the aging cold storage building in front of the Town hall and building a new one behind the Town hall. The Supervisor told us he would also like to see the construction of a senior center in the future. Town officials have estimated the demolition of the cold storage building to cost between \$10,000 and \$12,000 but have not yet determined the cost of a new cold storage building, fire station or senior center.
- The Highway Superintendent is developing a replacement plan for the Town's three aging and oversized 10-wheeler plow trucks. In 2018, Town officials purchased a new, smaller and less expensive truck, plow and salter equipment for approximately \$63,000.
- The Town is responsible for maintaining approximately 40 culverts. Town officials recently completed a culvert replacement project for approximately \$354,000<sup>2</sup> and have identified four more culverts in need of maintenance or replacement.

Town officials have identified financial and capital needs. However, without an evaluation of financial needs, and the adoption of a fund balance and reserve policy and a multiyear financial plan, the Board increases the risk that money will

<sup>1</sup> General Municipal Law, Section 3-c

<sup>2</sup> Town officials expect to receive approximately \$316,500 in federal and State aid to offset costs.

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not be available when expenditures become necessary or that more taxes than necessary will be levied when adequate financial resources are already available. Moreover, raising real property taxes while increasing fund balance, without formal plans, does not provide transparency to Town taxpayers.

### **What Do We Recommend?**

The Board should:

1. Use surplus funds as a financing source for:
  - Funding one-time expenditures.
  - Funding needed reserves.
  - Reducing property taxes.
2. Develop a comprehensive fund balance and reserve policy that addresses the appropriate levels of fund balance and reserves to be maintained and provides guidelines for the budget process.
3. Develop and adopt a comprehensive multiyear financial and capital plan.

# Appendix A: Response From Town Officials

## TOWN OF SOLON

TOWN SUPERVISOR  
Stephen Furlin

TOWN CLERK/TAX COLLECTOR  
Dana M. Smith

HIGHWAY SUPERINTENDENT  
Tyler Wildman

## ESTABLISHED 1798

TOWN COUNCILPERSONS  
Michael Petrella  
Annette Huskins  
Patrick O'Hara  
Anthony Opera

NYS Comptroller's Office,

1/24/19

The Town of Solon agrees with the findings of its current audit to develop and adopt a fund balance and reserve policy that establishes the level of fund balance and reserves to be maintained, and to develop a multiyear financial plan.

The Town of Solons Corrective Action Plan: The Town will establish a reserve account for the future placement of a Fire Station. The Town will also develop a reserve account for future equipment purchases, along with a reserve account for its future building maintenance needs or construction. Each of said reserve accounts will be funded with dedicated monies as determined by the board each year, along with reducing property taxes.

With to goal being a comprehensive fund balance and reserve policy that addresses the Town's budgeting practices and establishes the levels of fund balance and reserves so that the town can better maintain said funds.

STEPHEN A. FURLIN  
Town Supervisor

4012 NORTH TOWER ROAD CINCINNATUS, NY 13040 (607) 836-6246

## 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 Town officials to gain an understanding of the budget process and to determine whether the Board adopted fund balance policies and multiyear financial plans.
- We reviewed the general and highway fund balances for December 31, 2014 through December 31, 2017, to trend the dollar and percentage increases or decreases.
- We compared the general and highway fund's budgeted revenues and appropriations to the actual revenues and expenditures for 2015 through 2017 to determine whether budgets were realistic.
- We reviewed 2015 through 2017 general and highway fund revenues and expenditures to determine which categories contributed the most to the Town's budget-to-actual variances. We interviewed the Supervisor to identify reasons for significant budget variances.
- We compared the general and highway fund balances to the Town's real property tax levies for 2015 through 2018 to assess the reasonableness of fund balance levels.
- We compared the 2018 general and highway fund budgeted revenues and appropriations to 2017 actual revenues and expenditures to determine whether the 2018 budget was realistic.
- We interviewed Town officials and observed the Town's infrastructure to determine current and long-term capital needs.

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.

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

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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/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/lgli/pdf/cybersecurityguide.pdf](http://www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.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

Office of the New York State Comptroller  
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[www.osc.state.ny.us/localgov/index.htm](http://www.osc.state.ny.us/localgov/index.htm)

Local Government and School Accountability Help Line: (866) 321-8503

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