

# Town of Red Hook

## Financial Condition

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NOVEMBER 2018

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

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# Report Highlights

## Town of Red Hook

### Audit Objective

Determine whether the Board effectively managed the Town's financial condition.

### Key Findings

- From January 1, 2013 through December 31, 2017, the general fund's year-end fund balance increased from \$292,780 to \$917,351, or 213 percent.
- In June 2018, the Board adopted a fund balance policy that allowed for unexpended surplus funds of up to 70 percent of annual expenditures. The policy did not define the time periods or means for which fund balance will be used and replenished.
- The Board has not formalized or adopted comprehensive multiyear financial and capital plans specifying the Town's objectives and goals for use of accumulated funds.

### Key Recommendations

- Consider reducing unrestricted fund balance and using the excess funds as a financing source in a manner that benefits taxpayers.
- Revise the fund balance policy to ensure reasonable levels of fund balance and define timing and means of replenishment.
- Formalize and adopt comprehensive multiyear financial and capital plans.

District officials generally agreed with our findings and indicated they plan to initiate corrective action.

### Background

The Town of Red Hook (Town) is governed by an elected Town Board (Board), which is composed of the 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 officer, chief fiscal officer and budget officer and is responsible for day-to-day financial operations and for the development and administration of the budget. The Supervisor has appointed a bookkeeper to maintain the accounting records and assist in the financial reporting and filing.

#### Quick Facts

Population	11,319
2017 General Fund Expenditures	\$1,730,661
2017 General Fund Revenues	\$1,800,715
2017 Unrestricted General Fund Balance	\$917,351
2018 Budgeted Appropriations	\$1,715,040
2018 General Fund Tax Levy	\$1,241,703

### Audit Period

January 1, 2017 -- April 30, 2018. We extended our scope back to January 1, 2013 to analyze financial trends.

# Financial Condition Management

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## How Should the Board Effectively Manage Financial Condition?

A board is responsible for making financial decisions that are in the best interest of the town and its taxpayers. Towns should not exceed a reasonable amount of unrestricted fund balance consistent with prudent budgeting practices to ensure sufficient cash flow. New York State Town Law<sup>1</sup> allows a town to establish a contingency account of up to 10 percent of appropriations to provide for town operations when available fund balance is insufficient.

A multiyear financial plan helps the board assess alternative approaches to financial issues, such as accumulating fund balance, obtaining financing or using surplus funds to finance annual operations. A fund balance policy, which provides guidance on how fund balance will be used, is an important component of a multiyear financial plan. The board can legally set aside or reserve portions of fund balance to finance future costs for a variety of purposes, which should be considered when preparing multiyear financial plans. These plans and policies are an important planning tool for the board and an effective means of communicating the board's goals and priorities to town taxpayers.

## The Town Did Not Maintain a Reasonable Level of Unrestricted Fund Balance

The Board did not effectively manage unrestricted fund balance. From fiscal years 2013 through 2017, the Town's general fund balance increased by \$624,571, from \$292,780 to \$917,351 (213 percent). The Town's unrestricted fund balance grew from 19.54 percent of the ensuing year's budgeted appropriations at fiscal year-end 2013 to 53.49 percent of the ensuing year's budgeted appropriations at fiscal year-end 2017 (Figure 1).

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<sup>1</sup> New York State Town Law, Article 8, Section 107

**Figure 1: Fund Balance in the General Fund**

Description	2013	2014	2015	2016	2017
Beginning Fund Balance	\$292,780	\$382,355	\$480,309	\$835,466	\$847,297
Prior Period Adjustments	(\$615)	(\$117)	\$0	\$0	\$0
Net Operating Surplus	\$90,190	\$98,071	\$355,157	\$11,831	\$70,054
Ending Fund Balance	\$382,355	\$480,309	\$835,466	\$847,297	\$917,351
Less: Restricted Fund Balance	\$50,598	\$0	\$11,633	\$0	\$0
Total Unrestricted Fund Balance	\$331,757	\$480,309	\$823,833	\$847,297	\$917,351
Ensuing Year's Appropriations	\$1,697,463	\$1,772,947	\$1,779,215	\$1,746,136	\$1,715,040
Unrestricted Fund Balance as a Percentage of Ensuing Year's Appropriations	19.54%	27.09%	46.30%	48.52%	53.49%

Fund balance increased because the Town experienced operating surpluses, mostly in fiscal year 2015. While the Town experienced minor operating surpluses in the preceding and following fiscal years, it incurred a \$355,157 operating surplus in 2015. The Town received \$159,441 more in revenues and incurred \$195,717 less in expenditures than anticipated. For example, shared service and State mortgage tax revenues were underestimated by \$61,119 and \$49,709. Conversely, \$88,000 and \$38,907 were budgeted for, but not used, in the contingency and shared service expenditure accounts.

Further, contingency funds totaling \$377,000 were left unused in fiscal years 2013 through 2017, significantly contributing to operating surpluses. While it is prudent to have a conservative budget, a cushion in fund balance or an ample contingency provided in the budget, having all three approaches can result in unnecessarily high tax levies. We project that the Town will end the 2018 fiscal year with another operating surplus of at least \$10,000, which will minimally increase the Town's fund balance.

Because the real property tax levy remained stable from 2013 through 2017, Board members indicated that they were comfortable with the level of fund balance the Town maintained.

### **The Board Has Not Formalized or Adopted Comprehensive Multiyear Financial and Capital Plans**

In June 2018, the Board adopted a fund balance policy that allowed for unexpended surplus funds of up to 70 percent of annual expenditures. The policy was not comprehensive and did not define the time periods or means for which fund balance will be used and replenished.

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The Board also has not formalized comprehensive multiyear financial and capital plans specifying the Town's objectives and goals for using accumulated funds. Although Town officials have identified financial and capital needs, they have not established any reserves to finance anticipated projects. For example, instead of establishing reserve funds, from 2013 through 2017, the Board budgeted for and transferred a total of \$477,000 to the capital projects fund to help fund a recreation park expansion costing an estimated \$2.8 million and clean energy projects costing \$73,000.<sup>2</sup> Establishing and funding reserve funds for these purposes would have helped the Town to plan and fund these projects in a more formalized manner and effectively manage the Town's significant fund balance.

Although the tax levy has remained stable, the Board's significant levels of unrestricted fund balance placed an unnecessary burden on taxpayers. Multiyear plans, properly established and budgeted reserve funds, and an adequate fund balance policy would provide more transparency to taxpayers on the Board's strategy for funding projects and use of the Town's significant levels of fund balance.

## **What Do We Recommend?**

The Board should:

1. Reduce the amounts of unrestricted fund balance and use the excess funds as a financing source in a manner that benefits taxpayers. Such uses could include, but are not limited to:
  - a. Funding one-time expenditures,
  - b. Funding needed reserves,
  - c. Paying off debt, and
  - d. Reducing real property taxes.
2. Revise the fund balance policy to ensure levels of unrestricted fund balance are reasonable and define timing and means of replenishment.
3. Formalize and adopt a comprehensive multiyear financial and capital plan to establish the goals and objectives for funding long-term operating and capital needs. Monitor and update these plans regularly.

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<sup>2</sup> Based on disbursements during the audit period.

# Appendix A: Response From Town Officials

## TOWN OF RED HOOK

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### Municipal Response to Draft Report of Audit

The Town of Red Hook would like to take this opportunity to commend the Office of the New York State Comptroller for their recent audit related to the Financial Condition of the Town. We would like to acknowledge the professionalism of the Comptroller's Office Staff who participated in the audit. The audit was conducted in a manner that was considerate of the Town's employee work demands and the process proved to be instructive for all involved.

The Town looks forward to addressing the recommendations in the report through the Corrective Action Plan (CAP) process. We will work closely with your office to develop and implement the CAP.

Again, we would like to thank the Office of the New York State Comptroller for their professional approach to the audit of the Town of Red Hook.

Sincerely,

Robert McKeon

Town Supervisor  
Town of Red Hook

## 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 policies and procedures related to financial management, including budgeting and capital planning.
- We reviewed Board minutes and monthly and annual reports provided to Board members to determine the extent of financial information received by the Board.
- We determined the Town's unrestricted fund balance as a percentage of the ensuing year's budgeted appropriations for the last five fiscal years.
- We reviewed the Town's adopted budgets for the 2013 through 2018 fiscal years to determine trends in tax collections and appropriations of fund balance.
- We reviewed the Town's budget to actual reports for the years 2013 through 2017 to determine the amount by which the Town over or underestimated specific expenditure and revenue accounts and to identify capital expenditures paid from the general fund.
- We reviewed a selected sample of budget adjustments made during the 2017 fiscal year for evidence of Board approval.
- We reviewed the Town's contingency account for the 2013 through 2018 fiscal years and compared the account balance with budgeted operating expenditures to determine compliance with statutory limits.

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 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 District 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)

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