

# Village of Hilton

## Financial Management

JUNE 2020



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

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# Report Highlights

## Village of Hilton

### Audit Objective

Determine whether the Board and Village officials adopted realistic budgets and effectively managed fund balance and reserves.

### Key Findings

The Board could improve its budgeting and management of fund balance and reserves. The Board:

- Adopted budgets with unrealistic estimates, which resulted in operating surpluses and unused appropriated fund balances in the general, water and sewer funds.
- Maintained unreasonable levels of fund balance in the general, water and sewer funds that ranged between 29 percent and 128 percent of subsequent years' budget appropriations.
- Did not adopt a multiyear financial and capital plan or a detailed reserve plan that included the need and optimal funding level for each reserve.

### Key Recommendations

- Adopt budgets with realistic estimates for revenues and expenditures, and which appropriate a reasonable amount of fund balance.
- Reduce surplus fund balances in a manner that benefits Village residents.
- Establish a written policy governing the reasonable amount of fund balance to maintain and adopt a multiyear financial and capital plan and a reserve plan.

Village officials generally agreed with our findings and recommendations and indicated they have begun implementing corrective action.

### Background

The Village of Hilton (Village) is located in the Town of Parma in Monroe County.

The Village is governed by an elected Board of Trustees (Board) composed of a Village Mayor (Mayor) and four Trustees. The Board is responsible for the general management and control of financial affairs, including establishing financial policies and adopting and monitoring the annual budget. The Mayor is the chief executive officer. The Board appointed a Village manager/ clerk who is responsible for the Village's day-to-day operations as liaison between the Board and Village departments and personnel, and serves as budget officer. The Board also appointed a Treasurer, who serves as the chief fiscal officer and is responsible for maintaining accounting records.

#### Quick Facts

<b>2019-20 General Fund Appropriations</b>	\$3.1 million
<b>2019-20 Water Fund Appropriations</b>	\$584,353
<b>2019-20 Sewer Fund Appropriations</b>	\$401,176

### Audit Period

June 1, 2016 – November 22, 2019

# Financial Management

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## What Is Effective Financial Management?

The board is responsible for making financial decisions that are in the best interest of the village and its taxpayers and water and sewer customers. Sound budgeting helps ensure that budgets include realistic estimates for revenues, expenditures and fund balances available for appropriation as funding sources, based on historical or known trends.

By appropriating fund balance in the adopted budget, the board can plan for operating deficits in the amounts appropriated, to decrease surplus fund balance and reduce the real property tax levy. A budget contingency account provides funding for unexpected events and uncertainties, and is limited by Village Law<sup>1</sup> to 10 percent of appropriations. The board may retain a reasonable portion of fund balance for unforeseen circumstances and to provide cash flow to compensate for timing differences between revenues and expenditures.

The board should establish written policies governing the reasonable amount of surplus fund balance<sup>2</sup> to be maintained based on the documented specific circumstances of each fund. Accurate budgeting and sound fund balance management help ensure that real property taxes and water and sewer rates are not higher than necessary.

Multiyear financial and capital plans for a three to five-year period help the board assess long-term needs and alternative approaches to financial issues, such as accumulating fund balance, obtaining financing or using surplus funds to finance annual operations. The board can legally reserve portions of fund balance to finance future costs for a variety of purposes such as capital projects or large equipment purchases. The board should adopt a reserve plan that clearly communicates the purpose and intent for establishing each reserve fund, the manner in which the board will fund and maintain each reserve, the optimal or targeted funding levels and the conditions under which reserves will be used or replenished. 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 taxpayers and water and sewer customers.

## The Board Adopted Unrealistic Budgets

We compared estimated revenues and appropriations with actual operating results for 2016-17 through 2018-19 and found that the Board adopted unrealistic budgets for the general, water and sewer funds.

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<sup>1</sup> Village Law Section 5-506(1)(a)(3)

<sup>2</sup> Surplus fund balance is defined as unrestricted fund balance minus appropriated fund balance and encumbrances included in committed and assigned fund balance. See our accounting bulletin at <https://www.osc.state.ny.us/localgov/pubs/releases/gasb54.pdf>

The Board underestimated general fund revenues other than real property taxes by a total of \$1.2 million, with annual variances ranging between 16 and 23 percent (Figure 1). Although water and sewer fund revenue estimates were reasonable in certain years (Figure 2), the Board underestimated revenues by a total of \$91,070 in the water fund and \$65,096 in the sewer fund, with the largest variances in 2018-19.

The Board also overestimated general fund expenditures by a total of \$303,420 in 2016-17 and 2017-18. In 2018-19, general fund expenditures exceeded appropriations by \$103,566, for a three-year total variance of \$199,854. The Board also overestimated sewer fund appropriations by more than \$130,000 between 2016-17 and 2018-19 (Figure 2). The Board adopted reasonable expenditure estimates in the water fund.

Total budget variances were more than \$1.4 million in the general fund (Figure 1), \$81,800 in the water fund and \$195,800 in the sewer fund (Figure 2).

**Figure 1: General Fund Budget Variances and Unused Appropriated Fund Balance**

	2016-17	2017-18	2018-19	Totals
<b>Estimated Revenues<sup>a</sup></b>	\$1,733,589	\$1,854,897	\$1,798,592	\$5,387,078
<b>Actual Revenues<sup>a</sup></b>	\$2,072,345	\$2,200,561	\$2,322,474	\$6,595,380
<b>Underestimated Revenues</b>	\$338,756	\$345,664	\$523,881	\$1,208,302
<b>Percentage Underestimated</b>	16%	16%	23%	
<b>Budgeted Appropriations<sup>b</sup></b>	\$2,583,620	\$2,622,849	\$2,651,473	\$7,857,942
<b>Actual Expenditures</b>	\$2,446,371	\$2,456,678	\$2,755,039	\$7,658,087
<b>Overestimated Appropriations</b>	\$137,249	\$166,171	(\$103,566)	\$199,854
<b>Percentage Overestimated</b>	6%	7%	(4%)	
<b>Total Budget Variance</b>	\$476,005	\$511,835	\$420,316	\$1,408,156
<b>Operating Surplus<sup>b</sup></b>	\$206,006	\$331,751	\$168,087	\$705,884
<b>Unused Appropriated Fund Balance</b>	\$290,000	\$320,084	\$317,229	\$927,313

a We excluded real property taxes from our budget-versus-actual revenue analysis because generally all taxes levied are received. For perspective, the tax levy averaged approximately \$589,500.

b Excludes appropriations for funding general fund reserves which were improperly budgeted as interfund transfers

In the general fund, the largest revenue variance was for sales tax, which was annually underestimated by an average of \$179,790 with a three-year total of \$539,369 (13 percent). Despite the variances each year, the Board adopted budgets with minimal increases to sales tax estimates totaling only \$50,000 in the three years. However, the Board did increase the sales tax estimate in the 2019-20 budget by \$95,000 to \$1.3 million, a closer comparison to the \$1.39 million received in 2018-19.

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Other significant revenue variances included unbudgeted self-insurance recoveries for workers' compensation totaling \$207,497,<sup>3</sup> unbudgeted transfers totaling \$104,008 from the dissolved enterprise utility fund and equipment sale proceeds, underestimated by a total of \$100,017 (500 percent).<sup>4</sup>

Village officials told us that they budget sales tax revenue conservatively and did not include insurance refunds or equipment sales in the budget because they do not know the total that will be received. Although the amounts may vary, these revenues have been received each year and should be included in the budget. For example, the Village received self-insurance recoveries averaging more than \$40,000 and equipment sales proceeds averaging more than \$25,000 over the last 15 years, which provides a sufficient basis to include reasonable estimates in the budget.

Expenditure variances were generally spread throughout the budget line items, but included a total of \$200,000 in contingency appropriations in 2016-17 and 2017-18 that were not needed. While villages are allowed to have contingency accounts of up to 10 percent of total appropriations, including contingency accounts in an already conservative budget resulted in even larger budget variances. In 2018-19, the negative expenditure variance resulted mainly from an unbudgeted \$130,000 transfer to the capital project fund.

By underestimating revenues and overestimating expenditures, the Board gave taxpayers the impression that it needed to both increase its general fund tax levies<sup>5</sup> and use fund balance to close projected budget gaps. However, the unrealistic estimates actually created annual operating surpluses and the Village did not use any of the \$927,313 fund balance appropriated in the general fund (Figure 1). Thus, the Board may be placing a higher burden on taxpayers than necessary to provide services.

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<sup>3</sup> In 2018-19, the Village received an abnormally large refund totaling \$133,926 because an injury was less severe than first thought resulting in a lower cost than initially estimated.

<sup>4</sup> The Board did not budget for equipment sales revenue in 2017-18 or 2018-19.

<sup>5</sup> The general fund tax levy increased in 2016-17 through 2018-19 for a three-year net increase of \$21,628 (4 percent).

**Figure 2: Water and Sewer Fund Budget Variances**

	Water Fund				Sewer Fund			
	2016-17	2017-18	2018-19	Totals	2016-17	2017-18	2018-19	Totals
<b>Estimated Revenues</b>	\$511,878	\$559,071	\$559,708	\$1,630,657	\$348,707	\$350,708	\$353,059	\$1,052,474
<b>Actual Revenues</b>	\$551,903	\$561,034	\$608,789	\$1,721,727	\$351,445	\$361,650	\$404,475	\$1,117,570
<b>Underestimated Revenues</b>	\$40,025	\$1,963	\$49,081	\$91,070	\$2,738	\$10,942	\$51,416	\$65,096
<b>Percentage Underestimated</b>	7%	0%	8%		1%	3%	13%	
<b>Appropriations</b>	\$547,478	\$559,071	\$559,708	\$1,666,257	\$355,775	\$350,708	\$353,059	\$1,059,542
<b>Actual Expenditures</b>	\$556,449	\$552,593	\$566,437	\$1,675,480	\$300,042	\$312,029	\$316,754	\$928,826
<b>Over/(Under) estimated Appropriations</b>	(\$8,971)	\$6,477	(\$6,729)	(\$9,223)	\$55,733	\$38,679	\$36,305	\$130,716
<b>Percentage Overestimated</b>	(2%)	1%	(1%)		19%	12%	11%	
<b>Total Budget Variance</b>	\$31,054	\$8,441	\$42,352	\$81,847	\$58,471	\$49,621	\$87,720	\$195,812
<b>Operating Surplus/(Deficit)</b>	(\$4,546)	\$8,441	\$42,352	\$46,247	\$51,403	\$49,621	\$87,720	\$188,744

The Board did not always proportionally increase water and sewer revenue estimates when it increased rates. This significantly increased the budget variances in the primary revenues for these funds. In 2018-19, sewer rents were underestimated by \$46,206 (12 percent). This occurred, in part, because the Board increased sewer rates by 11 percent, but only increased the estimated revenue amount by 1 percent. Similarly, metered water sales were underestimated by a total of \$86,838 (8 percent) in 2016-17 and 2018-19. For example, in 2018-19, the Board increased water rates by 9 percent, but increased estimated revenues in the budget by less than 1 percent. In 2016-17 through 2018-19, while rate increases resulted in total revenue increases of \$75,700 in the water fund and \$50,813 in the sewer fund, Village officials only included increases totaling \$12,962 and \$12,388, respectively, in the adopted budgets (Figure 3). Village officials did increase their revenue estimates for both funds in the 2019-20 budget.

**Figure 3: Water and Sewer Rate and Estimated Revenue Increases**

Fiscal Year	Metered Water Sales			Sewer Rents			
	Rate Increase (Per \$1,000 gallons)	Change in Estimated Revenue	Change in Actual Revenue	Rate Increase Single Residence	Rate Increase (per 15,000 gallons) Multi and Commercial	Change in Estimated Revenue	Change in Actual Revenue
2016-17		(\$36,953)	\$20,984			\$8,036	\$1,659
2017-18	\$0.21	\$47,168	\$5,420	\$5	\$1.25	\$2,001	\$11,400
2018-19	\$0.29	\$2,647	\$49,296	\$15	\$3.25	\$2,351	\$37,754
2019-20		\$24,660				\$48,117	

Village officials told us that they did not accurately budget for metered water sales because they relied on projections for the final three months of activity when they created the ensuing years’ budgets. However, they had prior year consumption information available, and also should have incorporated increases in metered water sales in the budgets, in the years they increased water rates. Village officials also told us that they reduced the consumption amount used to estimate the revenue because water consumption has been decreasing with increased water efficiency and conservation.

We also found that approximately 30 percent of water billings are based on estimated meter readings because residents did not provide their meter readings as required every four months. Frequently estimating water usage could result in underestimated consumption and decreased revenue to cover the cost of purchased water being used, but not billed. In January 2020, the Board adopted amended water billing procedures that state that the Village will obtain actual readings each year.

Significant sewer fund expenditure variances included equipment purchases (\$67,190, 24 percent) and sewer maintenance repairs (\$19,061, 101 percent). Village officials told us that they intentionally budgeted sewer fund revenues and appropriations conservatively to increase fund balance for a future sewer line capital project. However, budgeting extra amounts in various operating expense lines to accumulate funds for a future capital project was not transparent and did not clearly communicate to sewer customers what the Board was generating the surpluses for. The March 30, 2009 Board minutes indicated that the Board increased sewer rates to raise revenue to pay for the potential future sewer main line repairs, but did not indicate the estimated cost or specific timeframe for the project. The minutes stated the project would occur “in the near future”, but 10 years have since passed, with higher rates in place, while the project did not occur. There was no further detail in more recent Board minutes, to publicly

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disclose the Board's plans or the reason it was generating and holding such significant surplus funds.<sup>6</sup>

In addition, the Board increased 2019-20 sewer fund appropriations in part by adding an \$83,775 contingency account. This amount exceeded the amount allowed by law by nearly \$44,000. The Treasurer told us they added the contingency appropriation to balance the budget, thus using it as another method to accumulate fund balance for future capital expenditures. This should have been accomplished by budgeting for a transfer to a Board-authorized capital reserve to stay within the limit for the contingency account and clearly show the Board's intent to raise funds for a future project, as part of the budget.

Because the Board included unrealistic estimates in its budget, the Village generated operating surpluses each year, ranging from \$168,087 to \$331,751 (Figure 1) in the general fund and \$49,621 to \$87,720 in the sewer fund (Figure 2). The Board planned for a small operating deficit in the sewer fund in 2016-17 by appropriating fund balance totaling \$7,067, but did not use any of the fund balance because it had an operating surplus, and did not appropriate fund balance in the next two years. In the water fund, budget variances resulted in a small operating deficit in 2016-17 and operating surpluses totaling \$50,793 in 2017-18 and 2018-19 (Figure 2).

These annual operating surpluses resulted in the accumulation of fund balance in the general, water and sewer funds. The Board's conservative budgeting practices, combined with significant fund balance levels, may place an unnecessary burden on taxpayers and water and sewer customers.

The Board is provided with quarterly budget-to-actual reports to monitor the budget throughout the fiscal year, and should use these, along with prior year operating results, to identify trends and variances, and address them to adopt more realistic budgets for ensuing years.

Based on our analysis of the 2019-20 adopted budget, officials adopted more reasonable general fund appropriations<sup>7</sup> and sewer fund revenues, but budgeted similarly in the other areas. For example, while the Board increased general fund revenue by approximately \$184,000 (7 percent), the estimate is still less than the actual amount received in each of the last three years, and will likely generate additional variances. The Board also increased general fund appropriated fund balance to \$525,000, despite having not used any of the fund balance appropriated in the previous three years. Therefore, it is likely that the general, water and sewer funds will each end 2019-20 with operating surpluses and increased fund balances.

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<sup>6</sup> See The Board Did Not Maintain a Reasonable Level of Fund Balance.

<sup>7</sup> Appropriations were increased more than \$420,000 (14 percent) in 2019-20, but \$220,000 of the increase is for a recycling truck.

## The Board Did Not Maintain a Reasonable Level of Fund Balance

Fund balance increased to or continued at unreasonably high levels in the general, water and sewer funds from 2016-17 through 2018-19 because the Board adopted budgets that included unrealistic estimates for revenues, expenditures and appropriated fund balance and had not established a written policy governing the reasonable amount of surplus fund balance to be maintained. After we completed our audit fieldwork, on January 21, 2020, the Board adopted a fund balance policy that states that “undesigned fund balance” in each fund should be 25-30 percent of the most recently adopted budget for each fund exclusive of fund balance appropriations. However, it provided no basis for that determination for each fund.

**Figure 4: General Fund Balance Reported**

	2016-17	2017-18	2018-19
<b>Ending Fund Balance</b>	\$1,971,443	\$2,303,194	\$2,471,280
<b>Less: Restricted</b>	\$644,643	\$707,693	\$887,605
<b>Less: Nonspendable</b>	\$51,486	\$67,706	\$54,115
<b>Less: Appropriated Fund Balance</b>	\$320,084	\$317,229	\$525,000
<b>Surplus Fund Balance</b>	\$955,230	\$1,210,566	\$1,004,560
<b>Percent of Next Year's Appropriations</b>	35%	45%	32%

Over the last three fiscal years (2016-17 through 2018-19), total general fund balance increased by more than \$705,000 (40 percent). As of May 31, 2019, the Village reported surplus fund balance totaling slightly more than \$1 million (32 percent of next year’s appropriations).

Adopting budgets with overly conservative estimates each year, while also appropriating fund balance that will not be used, is misleading to taxpayers and will continue to generate additional surplus fund balance. Essentially, the unused appropriated fund balance represents available fund balance, increasing total surplus fund balance to 49 percent of 2019-20 appropriations as of May 31, 2019. We identified other surplus funds and recalculated surplus fund balance at more than \$1.75 million, 56 percent of 2019-20 appropriations.

**Figure 5: Recalculated General Fund Balance as of May 31, 2019**

<b>Surplus Fund Balance</b>	\$1,004,560
<b>Add: Unused Appropriated Fund Balance</b>	\$525,000
<b>Add: Fund Balance in Dissolved Enterprise Utility Fund</b>	\$130,425
<b>Add: Unauthorized Retiree Health Insurance Reserve Balance</b>	\$94,364
<b>Recalculated Surplus Fund Balance</b>	\$1,754,349
<b>2019-20 Appropriations</b>	\$3,107,436
<b>Percentage</b>	56%

As of May 31, 2019, the Village reported \$130,425 in residual fund balance in the enterprise utility fund, which was dissolved in 2014. Village officials told us that while there were no restrictions on the remaining funds, the Board did not want to move the money to the general fund. Since 2014, the Board transferred and used some of the remaining balance in the general fund for a building survey and electrical upgrades, but Village officials told us that the Board did not have a plan for the remaining balance. After the enterprise utility fund was dissolved, the residual fund balance should have been transferred to the general fund as surplus fund balance, which would increase total surplus fund balance by \$130,425 as of May 31, 2019. After our discussion, Village officials told us that the Board planned to adopt a resolution to move these funds to the building capital reserve in the general fund in early 2020.

Further, the Village improperly reported \$94,364 for long-term retiree health insurance premiums as part of the capital reserve. There is no statutory authorization for a Village to reserve funds for retiree health insurance. Village officials told us that while they were aware that the reserve was not allowed, they continued to classify the funds as a reserve and reported them as restricted fund balance. These funds, which cannot be legally restricted for long-term retiree health insurance, should be classified as surplus fund balance, increasing total surplus fund balance to 56 percent of 2019-20 appropriations as of May 31, 2019 (Figure 5).

**Figure 6: Water and Sewer Fund Balance**

	Water Fund			Sewer Fund		
	2016-17	2017-18	2018-19	2016-17	2017-18	2018-19
<b>Ending Fund Balance</b>	\$163,506	\$171,947	\$214,298	\$378,705	\$428,326	\$516,047
<b>Less: Nonspendable Fund Balance</b>	\$2,605	\$5,155	\$3,386	\$2,642	\$6,028	\$4,157
<b>Surplus Fund Balance</b>	\$160,900	\$166,791	\$210,912	\$376,064	\$422,299	\$511,890
<b>Percentage of Next Year's Appropriations</b>	29%	30%	36%	107%	120%	128%

Over the last three years, surplus fund balance in the sewer fund increased approximately \$194,000 to \$511,890 (128 percent of 2019-20 appropriations) as of May 31, 2019 (Figure 6). Village officials told us that they accumulated a high level of fund balance to save for a future sewer line project.<sup>8</sup> However, the Board did not do so in a transparent manner or clearly communicate its intentions to residents and sewer customers. The Board did not establish a reserve to legally restrict funds for a sewer line capital project, and did not develop a written long-term capital and operating plan to document anticipated project needs and support accumulating such significant fund balance levels.

<sup>8</sup> See The Board Adopted Unrealistic Budgets.

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After our discussions with Village officials, the Board adopted a resolution in December 2019 to establish a reserve for the north side sanitary sewer. The initial funding of the reserve was \$300,000 with a maximum funding limit of \$500,000. For perspective, after reducing the 2018-19 year-end surplus funds by \$300,000, the total \$211,890 surplus fund balance was 53 percent of 2019-20 appropriations, still unreasonably high, without a documented and substantiated need.

Over the last three fiscal years, surplus fund balance in the water fund has increased by more than \$81,000 (63 percent) to \$210,912 (36 percent of 2019-20 appropriations) as of May 31, 2019 (Figure 6). Given the lack of a fund balance policy establishing and justifying a reasonable level to be maintained, it is unclear why this level of fund balance is necessary. Village officials told us that they have had discussions about the future installation of automated water meters, which they estimate to cost \$12,000 to \$20,000. However, there is not a formal plan for these expenditures and this is only a small portion of the water fund surplus fund balance.

It is neither prudent nor equitable to maintain excessive fund balance levels, as funds that could benefit the Village are not being used, thereby placing an unnecessary burden on current taxpayers and water and sewer customers.

### **The Board Did Not Adopt a Multiyear Financial and Capital Plan**

The Board did not adopt a comprehensive written multiyear financial and capital plan, including a detailed plan for reserves. Village officials told us that they discuss planning and had a multiyear financial and capital plan included as part of their budget presentation to the Board. However, the only component included was a 10-year equipment replacement schedule with estimated costs. The presentation did not identify proposed funding sources for the equipment or include any revenue or other expenditure projections for future years. Additionally, Village officials did not develop a detailed reserve plan that included the projected use and need for each reserve – such as to fund purchases from the equipment replacement schedule - or the desired funding levels and the justification for maintaining each reserve balance.

Although Village officials anticipate future equipment replacement, the Village has paid for its annual equipment purchases<sup>9</sup> out of the operating budget and did not use any reserves during our audit period.

The Village had three general fund capital reserves totaling \$524,165 and a workers' compensation reserve totaling \$269,077 at the end of 2018-19.<sup>10</sup> While

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<sup>9</sup> Averaging approximately \$130,000

<sup>10</sup> The Village-reported capital reserve total of \$887,605 included the workers' compensation reserve and the unauthorized retiree health insurance reserve, which we excluded from the reserve total.

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the capital reserve balances generally appeared reasonable, we question the reasonableness of the workers' compensation reserve balance, which exceeded the Board's \$220,000 funding limit by \$49,077. The Board established the workers' compensation reserve in 2009, stating it would fund the reserve up to \$220,000 with the expectation that future boards could determine whether that amount was still sufficient. However, the Board did not develop a plan to review the reserve balance or amend the maximum funding level. In 2011-12 and 2012-13, the reserve was funded beyond the Board-established limit by \$44,640. The Board did not fund this reserve in the years since, with the balance growing from interest earned.

There was not a reserve in either the water or sewer fund prior to the Board's establishment of a reserve for sewer repair in December 2019.

The lack of comprehensive financial and capital plans, including a plan for the funding and use of reserves, inhibits the Board's ability to effectively manage finances and address needs without overburdening taxpayers or water and sewer customers. Without a well-designed written financial and capital plan to assist the Board in making timely and informed decisions about programs and operations, it is less able to provide transparency to taxpayers and customers and effectively manage fund balance in their best interest.

## **What Do We Recommend?**

The Board should:

1. Develop and adopt budgets that include realistic estimates for revenues and expenditures, and which appropriate a reasonable and necessary amount of fund balance.
2. Adopt a clear and comprehensive policy governing the reasonable amount of surplus fund balance to be maintained in each operating fund based on the documented specific circumstances of each fund.
3. Use surplus funds as a financing source for:
  - Funding one-time expenditures.
  - Funding needed reserves.
  - Paying off debt.
  - Reducing property taxes and water and sewer fees.
4. Ensure that Village officials transfer the residual enterprise utility fund balance to the general fund, properly classify unauthorized reserves as surplus fund balance and properly report reserve balances.
5. Develop and adopt a comprehensive multiyear financial and capital plan and plan for reserves.

# Appendix A: Response From Village Officials

Joseph M. Lee, Mayor

TRUSTEES

Larry W. Speer  
Andrew J. Fowler  
Shannon Zabelny  
Kim Fay

Shari Pearce Village Manager/Clerk  
Mike McHenry Supt. of Public Works

## VILLAGE OF HILTON

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May 7, 2020

Edward V. Grant Jr., Chief Examiner  
Office of State Comptroller  
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Rochester, NY 14614-1608

Dear Mr. Grant,

The Village of Hilton received a copy of the draft audit report. The Village Board of Trustees and Administration appreciate the detailed analysis this report provided. We have reviewed and discussed the key findings and recommendations as a tool to reflect on best practices.

The Village has already implemented policies that were recommended during the audit process. The Village Board plans on developing a multi-year financial and capital plan and a more detailed reserve policy.

In reference to the current budgeting practices, the Village's approach was very conservative, we have strengthened our budget practices to be more accurate in projecting revenues and expenses. With this new practice, the current budget reflected a much lower fund balance, especially in the general fund.

Regarding the water budget and comments, I would like to note, when the auditor's reviewed the fund, they used the end of the fiscal year date, which is May 31<sup>st</sup>. That is also when a water billing is due, which reflects a higher fund balance. The Village bills three times a year and the water bills are collected January, May, and September. Those months the fund balance is higher and is used through the year to pay expenses. I would disagree with the audit report stating the fund balance has increased substantially the last two years.

The Village of Hilton has been planning for a major sewer project for the past ten years (north side of the Village). It was briefly noted in the minutes but was well known between the board and administration. We have been increasing rates steadily to pay for this project, while improving other areas of our infrastructure. The Village Board was under the impression we did not need to setup a reserve fund since the sewer fund is so restricted by the State. We developed a sewer reserve immediately after being instructed by the auditors.

See  
Note 1  
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In closing, the Village Board of Trustees is extremely thankful for the guidance and professionalism the team provided during the audit process. The Village Board intends to address the key findings and continue to comply with current New York State Comptroller's standards for sound municipal finance.

Sincerely,

~ Mayor Joseph Lee, Mayor  
Village of Hilton

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

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### Note 1

The report states that surplus fund balance in the water fund has increased by more than \$81,000 (63 percent) over the last three fiscal years. We used the same May 31 measurement point each year, to calculate the increase in comparable fund balances, and noted that without a comprehensive fund balance plan or policy, the justification for the increase was unclear.

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

- We interviewed Village officials and employees and reviewed Board minutes and equipment replacement schedules to gain an understanding of the budget process, what reports are provided to the Board throughout the year and whether the Board adopted fund balance policies and multiyear financial and capital plans.
- To assess budget reasonableness and identify which categories contributed the most to budget variances, we compared budget estimates to actual results for 2016-17 through 2018-19 for the general, water and sewer funds. We also compared them to the 2019-20 adopted budget to determine whether trends in the Village's budgeting practices continued.
- We reviewed contingency budget line items to determine whether they were within the allowable limit.
- We reviewed operating results for the general, water and sewer funds and compared the results to the appropriated fund balance to determine whether appropriated fund balance was used as budgeted.
- We analyzed fund balance, including reserve balances, for the general, water and sewer funds and calculated surplus fund balance as a percentage of next year's appropriations to help evaluate the reasonableness of the amount maintained.
- We analyzed reserves and related expenditures to determine whether they were properly established, used and funded and whether balances were reasonable.
- We reviewed water and sewer rate increases and compared them to related budgeted revenue to determine whether estimates were proportionately increased for rate increases.
- We calculated the number of estimated water bills for two billing periods (May through September 2019).

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

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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.

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 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

Office of the New York State Comptroller  
Division of Local Government and School Accountability  
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: [localgov@osc.ny.gov](mailto:localgov@osc.ny.gov)

[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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