



Fort Hunter Fire District

Capital Reserve Funds

2022M-202 | May 2023

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Report Highlights

Fort Hunter Fire District

Audit Objective

Determine whether the Fort Hunter Fire District (District) Board of Commissioners (Board) properly established and managed capital reserve funds.

Key Findings

The Board did not properly manage the District's three capital reserve funds. As a result, the Board reduced its transparency of financial operations, and the public did not have an opportunity to exercise its rights as provided in General Municipal Law. As of August 31, 2022, the three capital reserve funds had balances totaling \$179,932.

The Board did not:

- Properly establish the equipment capital reserve fund in accordance with General Municipal Law.
- Develop a multiyear capital plan that includes the use of capital reserve funds and their funding goals.
- Clearly identify the source of funding for the capital reserves as a part of the budgeting process.

Key Recommendations

- Establish capital reserve funds in compliance with General Municipal Law.
- Develop a multiyear capital plan that includes the use of capital reserve funds and their funding goals.
- Include funding of capital reserves as part of the budgeting process or as authorized by Board resolution and voter approval.

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

Background

The District is located in the Town of Florida in Montgomery County and serves the Town of Florida including the Hamlet of Fort Hunter.

An elected five-member Board governs the District and is responsible for its overall financial management.

The Board-appointed Treasurer is the chief fiscal officer and is responsible for receiving, disbursing and accounting for District funds, and preparing periodic financial reports for the Board.

Quick Facts

2022 Budget Appropriations	\$112,419
2022 Tax Levy Amount	\$96,000

Capital Reserve Fund Balances (as of August 31, 2022)

Truck Reserve	\$123,084
Building Reserve	\$39,643
Equipment Reserve	\$17,205

Audit Period

January 1, 2014 – August 31, 2022

We extended the scope back to January 1994 to determine whether the reserves were legally established.

Capital Reserve Funds

How Should a Fire District Board Establish and Manage Capital Reserve Funds?

A fire district board (board) may establish capital reserve funds to restrict a portion of fund balance to provide financing for capital-related costs, including capital improvements, vehicles and equipment. A board should develop a reserve fund policy to provide guidelines on how to establish and manage reserve funds.

A board must establish capital reserve funds by passing a resolution. The resolution should include the desired funding level and intended use of each reserve. For capital reserve funds created on January 1, 2007 and later, the resolution to create a capital reserve may not take effect until approved by a vote of qualified electors of the fire district (i.e., mandatory referendum). For capital reserve funds created before January 1, 2007, a requirement for a public vote to establish a capital reserve was contingent upon the purpose of the reserve to be created.¹

A board should manage capital reserves to ensure funding is available to meet the fire district's capital needs. A board should manage reserves by developing a multiyear capital plan. Such a plan assists the board in managing the investments by scheduling expenditures over a number of years and by creating a financing plan to meet capital expenditure needs. In addition, a multiyear capital plan communicates the board's purpose for each reserve, optimal funding goals, and conditions under which the reserves will be used and replenished.

A board should manage reserves by developing a multiyear capital plan.

The Board Did Not Properly Establish A Capital Reserve Fund

During our audit period, the District had the following capital reserve funds: (1) truck reserve fund; (2) building reserve fund; and (3) equipment reserve fund. We found that the Board did not properly establish one of the three capital reserve funds.

Specifically, the Board passed a resolution establishing the equipment capital reserve in 2020. However, we found no evidence that the Board informed taxpayers of the planned action, and the Board never held the required mandatory referendum. Three Commissioners and the Treasurer told us they were unaware of the mandatory referendum requirements to establish the equipment capital

¹ Effective January 1, 2007, General Municipal Law Section 6-g (3) was amended to require that any resolution establishing a capital reserve fund is subject to mandatory referendum. Prior to this amendment, the establishment of a capital reserve fund for a specific item of equipment or specific improvement was subject to permissive referendum and a capital reserve fund for a type of equipment or improvement could be established by resolution with no referendum requirements. A permissive referendum enables voters to petition for an authorized resolution to appear on a ballot. Once on the ballot, registered voters decide the fate of the resolution, support or overturn, by majority vote.

reserve fund. As a result, taxpayers were not provided the opportunity to vote on the establishment of the capital reserve fund as required.

Finally, District officials could not support they established the truck reserve by passing the required resolution.

The Board Did Not Properly Manage Capital Reserves

The Board did not adopt a reserve fund policy to identify desired funding levels for reserves or develop a written multiyear capital plan detailing planned capital acquisitions, cost estimates and planned use of capital reserve funds. The District also had no formal plan in place for funding the three capital reserve funds. Instead, the Board included \$7,000 of funding for reserves in the budgets for 2014, 2015 and 2016. However, the District increased the building capital reserve by \$12,690 in 2014 and the truck capital reserve by \$20,301 in 2015. Both of the deposits into the reserves were greater than the budgeted amount. No deposit was made into any of the three capital reserve accounts in 2016.

The Board passed resolutions for some, but not all, transfers deposited in each of the three reserve funds. We found the District made small deposits in the truck reserve in 2015 and 2021 and the building reserve in 2016 and 2018 to keep the bank accounts active.

Also, in 2015, the Board borrowed \$20,300 from the truck capital reserve for the general fund. Although the District repaid the money to the capital reserve, there was no statutory authority for the District to lend money from a capital reserve to the general fund. Figure 1 details reserve fund activity from 2014 through 2022.

Truck Reserve Fund – The District had \$104,336 in a truck capital reserve fund at the start of our audit period (Figure 1). In 2015, \$20,300 was loaned to and paid back by the general fund. However, a fire district has no authority to temporarily loan money from a capital reserve to another district fund.

In 2016, the District deposited \$80,253 from proceeds of a legal settlement in a savings account. The Board considered the savings account a “reserve fund,” but did not pass a resolution to establish the reserve. Additional deposits were made in 2018 of \$12,969 and in 2019 of \$2,056. In 2019, the Board passed a resolution closing the savings account and transferred the \$95,335 balance (including interest) to the truck capital reserve bank account.

Figure 1: Truck Reserve Funding

2014 Beginning Balance		\$104,336	
Fiscal Year	Deposit	Withdrawal	Interest
2014			\$30
2015	\$20,301	\$20,300	\$20
2016			\$21
2017	\$65,000		\$54
2018			\$85
2019	\$95,335		\$1,068
2020			\$506
2021	\$16,025	\$184,615	\$178
2022	\$25,000		\$40
Balance as of August 31, 2022		\$123,084	

In March of 2017, the Board passed a resolution to transfer \$65,000 of surplus general fund balance to the truck reserve bank account. In 2021, the District expended \$184,615 from the truck reserve to purchase a pumper truck without passing a Board resolution. Moreover, if the “savings account” was, in essence, a type of capital reserve, the expenditure would also have been subject to permissive referendum. The Board transferred \$16,025 of excess general fund balance into the truck reserve account in 2021 without passing a resolution authorizing this transfer. In 2022, \$25,000 from the proceeds of the sale of the old fire truck were deposited into the reserve without a Board resolution authorizing the action.

Building Reserve Fund – The District had \$8,912 in a building reserve fund at the start of our audit period (Figure 2). In 2014, the Board passed a resolution to move \$12,690 from surplus fund balance to the building reserve. In 2021, officials transferred an additional \$18,000 into the building reserve fund without passing a resolution to transfer these funds.

Figure 2: Building Reserve Funding

2014 Beginning Balance		\$8,912	
Fiscal Year	Deposit	Withdrawal	Interest
2014	\$12,690		\$4
2015			\$4
2016	\$1		\$4
2017			\$4
2018	\$1		\$4
2019			\$4
2020			\$4
2021	\$18,000		\$7
2022			\$4
Balance as of August 31, 2022		\$39,643	

Equipment Reserve Fund – In September 2020, the Board passed a resolution to establish an equipment capital reserve, which included authorization to deposit \$1,200 of District funds into the reserve’s account (Figure 3). However, the Board did not hold the required mandatory referendum prior to establishing the equipment reserve fund. During 2021, the District transferred \$16,000 from the operating fund to the equipment reserve without passing a resolution to authorize the transfer.

Board minutes indicated that the Board discussed transferring money to the building and equipment capital reserves on March 3, 2021; however, the minutes did not document that the Board took the necessary actions of adopting resolutions to authorize the transfers.

The Board did not include planned transfers in the annual budgets, nor did it pass resolutions to authorize the majority of the transfers to the reserves. In addition, voters were not provided the opportunity to approve the District’s equipment capital reserve fund because the Board was unaware of the statutory requirement to obtain voter approval to establish such a reserve.

Figure 3: Equipment Reserve Funding

Fiscal Year	Deposit	Withdrawal	Interest
2020	\$1,200		
2021	\$16,000		\$3
2022			\$2
Balance as of August 31, 2022		\$17,205	

When District officials do not follow proper procedures for establishing and managing capital reserve funds, it reduces transparency of financial operations, and the public does not have an opportunity to exercise its rights as provided in the law.

What Do We Recommend?

The Board should:

1. Establish capital reserve funds in compliance with legal requirements, including first passing a resolution creating the capital reserve fund(s) and obtaining voter approval prior to funding the reserves.
2. Take necessary steps to ratify and legalize the reserve funds by following the procedures for establishing a capital reserve fund in conformance with the procedures in GML, including voter approval requirements.
3. Create a multiyear capital plan that includes planned capital acquisitions, cost estimates and planned use of capital reserve funds.
4. Ensure funding of capital reserves are included in the adopted budgets or authorized by Board resolution and voter approval.

Appendix A: Response From District Officials

FORT HUNTER FIRE DISTRICT

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May 10, 2023

Office of the New York State Comptroller
Division of Local Government & School Accountability
PSU –CAP Submission
110 State Street, 12th Floor
Albany, NY 12236

Gentlemen;

On behalf of the Board of Commissioners of the Fort Hunter Fire District, we have reviewed the draft Report of Examination of the Capital Reserve Funds for the Fort Hunter Fire District. We completely agree with your key findings and we are certainly aiming for better multiyear planning and budgeting of capital reserve funds.

When the Reserve Funds were established, the current Board of Commissioners were not on the Board and the Secretary/Treasurer was someone other than Barbara Lampkin. We were not aware that the funds were not established legally.

On December 13, 2022, voting was held on two propositions to establish Capital Reserve Funds legally.

Proposition Number 1, A Resolution approved by the Board of Fire Commissioners pursuant to General Municipal Law Section 6-g to establish a Capital Reserve Fund for Buildings and Capital Improvements and

Proposition Number 2, A Resolution approved by the Board of Fire Commissioners pursuant to General Municipal Law Section 6-g to establish a Capital Reserve Fund for Equipment Repair and Replacement.

The propositions were approved and the Reserve Funds were established and funded with funds from the illegally established Reserve Accounts.

It will also be our priority to make sure that all motions and resolutions are noted in the minutes of the meetings specifically with the name of the resolution and by whom sponsored it.

Should you need any further explanation regarding the audit, please don't hesitate to contact us.

Thanking you for the excellent audit and report, I remain

Very truly yours,

James Dingman, Chairman
Board of Fire Commissioners

Appendix B: 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Board members and the Treasurer to gain an understanding of the District's capital reserve policies, procedures and practices.
- We reviewed District policies and procedures to identify and gain an understanding of existing policies and procedures related to capital reserves.
- We analyzed the capital reserves bank account activity from January 1, 2014 through August 31, 2022 to determine when deposits were made into the accounts and when withdrawals were made from the accounts.
- We reviewed Board minutes for Board resolutions and approvals to assess whether capital reserves were properly established and whether deposits into capital reserves and disbursements from capital reserves were Board-approved and proper.
- We requested copies of legal notices for capital reserve referendums from January 1, 1994 through August 31, 2022.

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. Pursuant to Section 181-b of New York State Town Law, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and forwarded to our office within 90 days. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. 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.

Appendix C: Resources and Services

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