



# Highland Falls - Fort Montgomery Central School District Financial Condition

Report of Examination

Period Covered:

July 1, 2014 – September 5, 2015

2015M-341



Thomas P. DiNapoli

# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	1
<b>INTRODUCTION</b>	2
Background	2
Objective	2
Scope and Methodology	2
Comments of District Officials and Corrective Action	2
<b>FINANCIAL CONDITION</b>	4
Fund Balance	4
Reserves	5
Recommendations	7
<b>APPENDIX A</b> Response From District Officials	8
<b>APPENDIX B</b> Audit Methodology and Standards	11
<b>APPENDIX C</b> How to Obtain Additional Copies of the Report	12
<b>APPENDIX D</b> Local Regional Office Listing	13

# State of New York Office of the State Comptroller

---

---

## **Division of Local Government and School Accountability**

April 2016

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Highland Falls-Fort Montgomery Central School District, entitled Financial Condition. This audit was conducted 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.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*

# Introduction

## Background

The Highland Falls - Fort Montgomery Central School District (District) is located in the Town of Highlands in Orange County. The District is governed by the Board of Education (Board), which is composed of nine elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of the School (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The District operates three schools with approximately 900 students and 150 full time employees. The District's total expenditures for the 2014-15 fiscal year were approximately \$28 million and were funded primarily with State aid, real property taxes and federal Impact Aid (Impact Aid).

## Objective

The objective of our audit was to review the District's financial condition. Our audit addressed the following related question:

- Did District officials ensure fund balance was in accordance with statutory requirements and reserves were maintained at reasonable levels?

## Scope and Methodology

We examined the District's financial condition for the period July 1, 2014 through September 5, 2015. We extended our audit period back to July 1, 2010 to analyze the District's fund balance and reserve fund activity.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

## Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective

action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. 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. The Board should make the CAP available for public review in the District Clerk's office.

## Financial Condition

The Board is responsible for making sound financial decisions that are in the best interests of the District, the students it serves and the taxpayers who fund the District's programs and operations. Fund balance represents resources remaining from prior fiscal years. A district may retain a portion of fund balance but must do so within the limits established by New York State Real Property Tax Law (RPTL). Currently, the amount of fund balance that a school district can retain may not be more than 4 percent of the ensuing fiscal year's budget. The Board is also responsible for developing a formal plan for funding and using reserves. Funding reserves should be done through appropriations in budgets that are voted on by District residents. Funding reserves at greater than reasonable levels contributes to real property tax levies that are higher than necessary because the excessive reserve balances are not being used to fund operations.

The District's unassigned fund balance as of June 30, 2015 was about \$2.8 million. This amount is 9.9 percent of the ensuing year's budget and, therefore, exceeds the 4 percent statutory limit by almost \$1.7 million. The District also has five reserves totaling \$5.1 million. Although the reserves have been properly established, the Board has not established a policy for funding and using the reserves. The District's tax certiorari reserve, totaling \$614,000, is overfunded by \$489,000 (80 percent) and there is no support for the employee benefits accrued liability reserve (EBALR), which totals \$379,000. Further, District officials have been funding reserves by transferring surplus funds at year-end, rather than through budget appropriations. As a result, District officials may have missed opportunities to reduce accumulated fund balance and the tax levies and missed opportunities to increase budget transparency.

### Fund Balance

Fund balance represents resources remaining from prior fiscal years. The District may retain a portion of fund balance but must do so within the limits established by RPTL. Currently, the District cannot retain unassigned fund balance totaling more than 4 percent of the ensuing fiscal year's budget. The remaining fund balance can be used to fund District operations, pay for one-time expenditures, establish reserves for specific purposes or reduce the tax levy.

As of June 30, 2015, the District's unassigned fund balance was \$2,796,080 or 9.9 percent of the ensuing year's budget. The District's unassigned fund balance exceeded the limit established by RPTL by \$1,666,351. The unassigned fund balance increased from \$52,912 in

2011-12 to \$2,796,080 in 2014-15, an increase of over \$2.7 million, because of the timing of the receipt of Impact Aid<sup>1</sup> the District receives.

Impact Aid accounts for over 12 percent of the District's annual budgeted revenues. The District applies for Impact Aid<sup>2</sup> every year in January for the following fiscal year. However, Impact Aid is not always received in a timely manner. For example, the District generally receives approximately 35 percent of Impact Aid requested for the fiscal year in November. However, for fiscal year July 1, 2015 through June 30, 2016, the District had not received any Impact Aid as of December 2015. In addition, during 2013-14, the federal government sequestered<sup>3</sup> funds. As a result, the District did not receive any Impact Aid that year until November 2014. Furthermore, Impact Aid for each fiscal year is received in installments over a three-year period. For example, Impact Aid for 2012-13 was not received in full until 2014-15.

District officials told us that because of the uncertainty of the timing of receiving Impact Aid, the District has accumulated excessive unassigned fund balance to provide a cushion in the event the aid is not available when needed. District officials are aware that the District's fund balance exceeds the statutory limit and have begun to reduce the unassigned fund balance. For example, they have transferred \$3.8 million to the capital reserve.

## Reserves

Most reserve funds are established to provide resources for a future use. When District officials establish reserve funds for specific purposes, it is important they develop a formal policy for reserves, including how and when disbursements should be made, optimal or targeted funding levels and why these levels are justified. Such a plan should guide the Board in accumulating and using reserve funds and inform District residents about how their tax dollars will be used.

---

<sup>1</sup> The Impact Aid Law (formerly Title VIII of the Elementary and Secondary Education Act of 1965) provides assistance to local school districts with concentrations of children residing on Indian lands, military bases, low-rent housing properties or other federal properties. The Impact Aid Law also, to a lesser extent, provides assistance to concentrations of children who have parents in the uniformed services or parents who are employed on eligible federal properties who do not live on federal property. The District receives Impact Aid because West Point, the United States Military Academy, is in the District. Federal land accounts for 77.72 percent of the real property within the District.

<sup>2</sup> Impact Aid is based on a formula. The amount of Impact Aid is set at 90 percent of the 2009 application year payment.

<sup>3</sup> Budget sequestration refers to the automatic spending cuts to federal government spending in particular categories of outlays that were initially set to begin on January 1, 2013 as an austerity fiscal policy as a result of the Budget Control Act of 2011. The spending cuts were postponed by two months by the American Taxpayer Relief Act of 2012 until March 1, when this law went into effect.

The Board should review the District's reserves at least annually and fund them through budget appropriations to help ensure the amounts reserved are necessary and provide transparency to District residents.

The District had five reserve funds totaling about \$5.2 million as of June 30, 2015 including a capital reserve totaling \$3.8 million, a tax certiorari reserve totaling \$613,876, an EBALR reserve totaling \$378,707, a retirement contribution reserve totaling \$300,000 and an unemployment insurance reserve totaling \$100,000. Each reserve was properly established by Board resolution. However, the Board has not established a policy stating how much would be set aside in each reserve, how each reserve would be funded or when the reserve funds would be used.

The capital, retirement and unemployment reserves are funded at reasonable levels. However, the tax certiorari reserve is overfunded and District officials were unable to support the amount maintained in the EBALR. In addition, there was no indication that the Board annually reviewed the District's reserves to ensure the amounts are necessary and reasonable. The tax certiorari, EBALR and retirement reserves are not being used for their intended purposes because, over the last five years, the Board has levied taxes to pay for these expenditures and has not expended funds from any of these reserves. Finally, District officials have transferred surplus funds at year-end to fund each of these reserves, rather than funding them through budget appropriations. This diminishes budget transparency.

Tax Certioraris — Education Law authorizes districts to establish a reserve fund for costs related to tax certiorari proceedings. Money held in such a reserve may not exceed the amount that might reasonably be deemed necessary to meet anticipated judgments and claims arising out of such proceedings. Any amounts that will not be reasonably required to pay judgments and claims must be returned to the general fund within four years of deposit.

As of June 30, 2015, the tax certiorari reserve had a balance of approximately \$614,000. The District has potential tax certiorari claims totaling \$250,518. During the last five fiscal years, the District settled claims at an average of 33 percent of the original claim amount. Assuming that cases settle at 50 percent of the original claim amounts, the District could reasonably expect to pay about \$125,000. As a result, the tax certiorari reserve fund is likely overfunded by approximately \$489,000 (80 percent).

EBALR — School districts are required to measure and report liabilities for compensated absences (i.e., annual and sick leave time accruals). General Municipal Law (GML) allows school districts

to establish an EBALR to pay costs associated with compensated absences paid directly to, or on the behalf of, employees when they separate from District employment. GML does not limit the amount of funds a school district can maintain in an EBALR. However, the balance in this reserve must be reasonable and meet specific legal requirements.

As of June 30, 2015, the reserve had a balance of \$378,707. However, District officials could not justify the amount maintained in the reserve. Furthermore, all the compensated absences paid in the past five years have been paid directly from the general fund. The lack of use of this reserve indicates that the District has no current need to restrict these funds.

By not establishing a reserve fund policy, not using reserves for their intended purposes and not funding reserves through budget appropriations, the Board has missed opportunities to reduce accumulated fund balance and tax levies and provide transparency in the budgeting process.

## **Recommendations**

The Board should:

1. Ensure the unassigned fund balance is in compliance with statutory limits.
2. Develop a formal reserve fund policy that outlines targeted funding levels and the conditions under which the funds will be used.
3. Periodically evaluate reserve balances to ensure the amounts reserved are necessary and reasonable.
4. Include planned transfers to reserves as appropriations in the District's budget.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

The District officials' response to this audit can be found on the following pages.



# HIGHLAND FALLS-FORT MONTGOMERY CENTRAL SCHOOL DISTRICT

Dr. Frank Sheboy, Superintendent of Schools

March 29, 2016

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

To Whom It May Concern:

This letter is in response to your audit of the Highland Falls-Fort Montgomery Central School District Financial Condition Audit for the period July 1, 2014 through September 3, 2015. The State Comptroller's Office extended the audit period back to July 1, 2010 to analyze the District's fund balance and reserve fund activity.

The district concurs with the findings and will take the necessary steps to continue to provide the taxpayers of the Highland Falls-Fort Montgomery School District a transparent budget.

## Corrective Action Plan

**Recommendation 1** – The Board should ensure the unassigned fund balance is in compliance with statutory limits.

**Corrective Action:** School district officials understand that the statutory fund balance is 4 percent of the ensuing fiscal year's budget. As stated in the audit, the District receives approximately 1/12 of its revenues from the Federal Government in the form of Federal Impact Aid (Impact Aid). The District does not receive Impact Aid in a timely manner every year; therefore, the excess fund balance provides a cushion in the event the aid is not available when needed. The Assistant Superintendent for Business will continue to evaluate the Fund Balance yearly and have discussions with the Board of Education as to what they feel is a comfortable amount of unassigned fund balance based on the amount of Impact Aid received during that fiscal year. It is also important to state that if the federal government sequesters funds, the district would need fund balance to gap the lack of Impact Aid. One last note, when the district received retroactive payments of Impact Aid from previous years, funds were transferred to the capital reserve which was created by voter approval. This action will decrease the taxpayer liability in the future for capital projects to improve and enhance district facilities and meet emergency facility needs as they may occur.

Superintendent's Office  
845-446-9575

[www.hffmcsd.org](http://www.hffmcsd.org)  
P.O. Box 287, Highland Falls, NY 10928

Fax  
845-446-3321

**Recommendation 2** – The Board should develop a formal reserve policy that outlines targeted funding levels and the conditions which the funds will be used.

**Corrective Action:** Though not required, the Policy Committee will develop a reserve fund policy that addresses reserves and the conditions under which the reserves will be used. Once the Policy Committee has a reserve fund policy developed, the Superintendent will bring the policy forward for review, revision and approval by the Board of Education.

**Recommendation 3** – The Board should periodically evaluate reserve balances to ensure the amounts reserved are necessary and reasonable

**Corrective Action:** The Assistant Superintendent for Business will prepare a new spreadsheet for the Tax Certioraris for the past 3 years and the current year. Once the reserve is reviewed, the recommendation will be made to the Board of Education to bring the Tax Certioraris Reserve to an appropriate level amount in June 2016.

The EBLAR Reserve will continue to be reviewed on an annual basis. The EBLAR Reserve will reflect the costs associated with compensated absences (unused sick/vacation time) and contractual obligations paid directly to, or on the behalf of employees when they separate from District employment on a yearly basis. This reserve will be funded to an appropriate level.

Thank you for your time and consideration concerning this matter.

Sincerely,

Dr. Frank ~~Sheboy~~  
Superintendent of Schools

Cc: Board of Education  
Denise S. Cedeira, Assistant Superintendent for Business

## **APPENDIX B**

### **AUDIT METHODOLOGY AND STANDARDS**

Our overall goal was to review the District's financial condition. To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials to gain an understanding of Impact Aid.
- We reviewed results of operations and analyzed changes in fund balance for the general fund from July 1, 2010 through June 30, 2015.
- We tested the reliability of the accounting records by reviewing bank reconciliations and comparing them to annual financial reports filed with the Office of the State Comptroller and to the District's independently audited financial statements.
- We reviewed Board minutes and interviewed officials to determine whether management was involved in financial matters by receiving and reviewing financial reports, analyzing the need for an establishing reserves and otherwise monitoring the District's financial condition.
- We reviewed Board minutes and resolutions to verify the establishment of reserve funds.
- We reviewed reserve balances for reasonableness.

We conducted this performance audit in accordance with 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.

## APPENDIX C

### HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller  
Public Information Office  
110 State Street, 15th Floor  
Albany, New York 12236  
(518) 474-4015  
<http://www.osc.state.ny.us/localgov/>

**APPENDIX D**  
**OFFICE OF THE STATE COMPTROLLER**  
**DIVISION OF LOCAL GOVERNMENT**  
**AND SCHOOL ACCOUNTABILITY**

Andrew A. SanFilippo, Executive Deputy Comptroller  
Gabriel F. Deyo, Deputy Comptroller  
Tracey Hitchen Boyd, Assistant Comptroller

**LOCAL REGIONAL OFFICE LISTING**

---

**BINGHAMTON REGIONAL OFFICE**

H. Todd Eames, Chief Examiner  
Office of the State Comptroller  
State Office Building, Suite 1702  
44 Hawley Street  
Binghamton, New York 13901-4417  
(607) 721-8306 Fax (607) 721-8313  
Email: [Muni-Binghamton@osc.state.ny.us](mailto:Muni-Binghamton@osc.state.ny.us)

Serving: Broome, Chenango, Cortland, Delaware,  
Otsego, Schoharie, Sullivan, Tioga, Tompkins Counties

**BUFFALO REGIONAL OFFICE**

Jeffrey D. Mazula, Chief Examiner  
Office of the State Comptroller  
295 Main Street, Suite 1032  
Buffalo, New York 14203-2510  
(716) 847-3647 Fax (716) 847-3643  
Email: [Muni-Bufferalo@osc.state.ny.us](mailto:Muni-Bufferalo@osc.state.ny.us)

Serving: Allegany, Cattaraugus, Chautauqua, Erie,  
Genesee, Niagara, Orleans, Wyoming Counties

**GLENS FALLS REGIONAL OFFICE**

Jeffrey P. Leonard, Chief Examiner  
Office of the State Comptroller  
One Broad Street Plaza  
Glens Falls, New York 12801-4396  
(518) 793-0057 Fax (518) 793-5797  
Email: [Muni-GlensFalls@osc.state.ny.us](mailto:Muni-GlensFalls@osc.state.ny.us)

Serving: Albany, Clinton, Essex, Franklin,  
Fulton, Hamilton, Montgomery, Rensselaer,  
Saratoga, Schenectady, Warren, Washington Counties

**HAUPPAUGE REGIONAL OFFICE**

Ira McCracken, Chief Examiner  
Office of the State Comptroller  
NYS Office Building, Room 3A10  
250 Veterans Memorial Highway  
Hauppauge, New York 11788-5533  
(631) 952-6534 Fax (631) 952-6530  
Email: [Muni-Hauppauge@osc.state.ny.us](mailto:Muni-Hauppauge@osc.state.ny.us)

Serving: Nassau and Suffolk Counties

**NEWBURGH REGIONAL OFFICE**

Tenneh Blamah, Chief Examiner  
Office of the State Comptroller  
33 Airport Center Drive, Suite 103  
New Windsor, New York 12553-4725  
(845) 567-0858 Fax (845) 567-0080  
Email: [Muni-Newburgh@osc.state.ny.us](mailto:Muni-Newburgh@osc.state.ny.us)

Serving: Columbia, Dutchess, Greene, Orange,  
Putnam, Rockland, Ulster, Westchester Counties

**ROCHESTER REGIONAL OFFICE**

Edward V. Grant, Jr., Chief Examiner  
Office of the State Comptroller  
The Powers Building  
16 West Main Street, Suite 522  
Rochester, New York 14614-1608  
(585) 454-2460 Fax (585) 454-3545  
Email: [Muni-Rochester@osc.state.ny.us](mailto:Muni-Rochester@osc.state.ny.us)

Serving: Cayuga, Chemung, Livingston, Monroe,  
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

**SYRACUSE REGIONAL OFFICE**

Rebecca Wilcox, Chief Examiner  
Office of the State Comptroller  
State Office Building, Room 409  
333 E. Washington Street  
Syracuse, New York 13202-1428  
(315) 428-4192 Fax (315) 426-2119  
Email: [Muni-Syracuse@osc.state.ny.us](mailto:Muni-Syracuse@osc.state.ny.us)

Serving: Herkimer, Jefferson, Lewis, Madison,  
Oneida, Onondaga, Oswego, St. Lawrence Counties

**STATEWIDE AUDITS**

Ann C. Singer, Chief Examiner  
State Office Building, Suite 1702  
44 Hawley Street  
Binghamton, New York 13901-4417  
(607) 721-8306 Fax (607) 721-8313