



# Chappaqua Central School District Financial Condition

## Report of Examination

Period Covered:

July 1, 2013 – April 8, 2015

2015M-193



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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

October 2015

Dear 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 Chappaqua 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 recommendation 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 Chappaqua Central School District (District) is located in the Town of New Castle in Westchester County. The District is governed by the Board of Education (Board), which is composed of five elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for day-to-day District management under the Board's direction. The Assistant Superintendent for Business is responsible for maintaining the accounting records and for receiving, disbursing and maintaining custody of District money.

The District operates six schools with approximately 4,000 students and 600 employees. The District's budgeted appropriations for the 2014-15 fiscal year were \$116.8 million, which were funded primarily with real property taxes and State aid.

## Objective

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

- Did District officials adequately monitor the District's financial condition and take appropriate action to maintain the District's financial stability?

## Scope and Methodology

We examined the District's financial condition from July 1, 2013 through April 8, 2015. We extended our scope period back to July 1, 2009 to analyze the District's fund balance, budgeting and financial trends.

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. 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.

## Comments of District Officials and Corrective Action

The results of our audit and recommendation 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 recommendation 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 finding and recommendation 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 and District officials are accountable to taxpayers for the use of District resources and for effectively planning and managing the District's financial operations. They are responsible for adopting budgets that include realistic estimates of expenditures and the resources available to fund them. Sound budgeting practices, coupled with prudent fund balance management, can help ensure that the District consistently generates sufficient, recurring revenues to finance anticipated expenditures.

A key measure of the District's financial condition is its fund balance level, which is the difference between revenues and expenditures accumulated over time. When maintained at reasonable levels, fund balance provides cash flow and can be used to help finance the next fiscal year's operations. The restricted portion of fund balance represents the amount that the District may use only for specific purposes. Unrestricted fund balance may be appropriated to fund programs in the next year's budget. New York State Real Property Tax Law restricts unrestricted fund balance in school districts to 4 percent of the next year's appropriations.

District officials adequately monitored the District's financial condition and maintained fiscal stability. From 2009-10 through 2011-12, fund balance in the general fund increased from \$19.3 million to about \$21.1 million. While fund balance decreased to \$20.1 million in 2012-13 and to \$18.9 million in 2013-14, this was the result of planned operating deficits. Preliminary results of operations indicate that the trend of planned deficits will continue for 2014-15.

We analyzed the District's financial condition from 2009-10 through 2013-14. The District had operating surpluses from 2009-10 through 2011-12, ranging from \$763,500 to \$1.3 million and operating deficits of \$943,600 and \$1.2 million during 2012-13 and 2013-14, respectively. During 2013-14 and 2014-15, the District had consecutive planned operating deficits while maintaining fund balances of approximately 4 percent of the ensuing years' appropriations. In addition, restricted fund balance went from \$12.5 million in 2009-10 to \$10.7 million in 2013-14. This resulted in total fund balance decreasing from \$19.3 million in 2009-10 to \$18.9 million as of June 30, 2014.

<b>Figure 1: General Fund – Operating Results and Fund Balance</b>					
	2009-10	2010-11	2011-12	2012-13	2013-14
Beginning Fund Balance	\$18,028,636	\$19,320,707	\$20,084,185	\$21,070,807	\$20,127,165
Prior Period Adjustment	(\$3)	\$2		\$6	
Revenues	\$105,861,230	\$107,929,756	\$109,046,941	\$110,360,390	\$113,673,765
Expenditures	\$104,569,156	\$107,166,280	\$108,060,319	\$111,304,038	\$114,853,544
Operating Surplus/(Deficit)	\$1,292,074	\$763,476	\$986,622	(\$943,648)	(\$1,179,779)
Year-End Accumulated Fund Balance	\$19,320,707	\$20,084,185	\$21,070,807	\$20,127,165	\$18,947,386
Less Assigned	\$2,430,000	\$3,937,707	\$4,505,424	\$3,235,695	\$3,615,727
Less Restricted	\$12,515,059	\$11,677,791	\$12,077,383	\$12,298,349	\$10,667,552
Less Non-Spendable	\$0	\$21,892	\$0	\$0	\$0
Unassigned Fund Balance	\$4,375,648	\$4,446,795	\$4,488,000	\$4,593,121	\$4,664,107

Figure 2 shows the restricted fund balance composition.

<b>Figure 2: Restricted Fund Balance Composition</b>					
	2009-10	2010-11	2011-12	2012-13	2013-14
Tax Certiorari Reserves	\$3,327,083	\$3,328,170	\$4,263,016	\$4,629,914	\$4,630,905
Unemployment Reserves	\$150,469	\$150,518	\$150,561	\$150,597	\$150,629
Encumbrances	\$2,095,204	\$0	\$0	\$0	\$0
Retirement Contribution Reserves	\$2,796,706	\$4,073,312	\$3,509,354	\$3,510,190	\$2,010,941
Compensated Absences Reserves	\$3,500,000	\$3,501,144	\$3,502,143	\$3,357,723	\$3,222,992
Liability Reserves	\$218,379	\$218,450	\$218,512	\$218,564	\$218,611
Insurance Reserves	\$210,081	\$210,150	\$210,210	\$210,260	\$210,305
Repairs Reserves	\$195,887	\$196,047	\$196,147	\$196,236	\$196,324
Miscellaneous	\$21,250	\$0	\$0	\$0	\$0
Other Restricted Funds	\$0	\$0	\$27,440	\$24,865	\$26,845
<b>Total Restricted Fund Balance</b>	<b>\$12,515,059</b>	<b>\$11,677,791</b>	<b>\$12,077,383</b>	<b>\$12,298,349</b>	<b>\$10,667,552</b>

As shown in Figure 2, tax certiorari, retirement contribution and compensated absences represented a significant portion of the year-end restricted fund balances. From 2009-10 through 2013-14, these items made up an average of 90 percent of the restricted fund balance. We examined the District’s bases for restricting fund balances for tax certiorari, retirement contribution and compensated absences and found that the amounts reserved were reasonable.

**Recommendation**

1. The Board and District officials should continue to monitor the District’s financial condition and maintain fiscal stability.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



# CHAPPAQUA CENTRAL SCHOOL DISTRICT

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Lyn McKay, PhD  
Superintendent

September 25, 2015

Ms. Tenneh Blamah  
Chief Examiner of Local Government and School Accountability  
State of New York Office of the Comptroller  
Newburgh Regional Office  
33 Airport Center Drive, Suite 103  
New Windsor, NY 12553

Dear Ms. Blamah,

The Chappaqua Central School District appreciates the comprehensive review performed by the Comptroller's Office of our internal controls with the design to promote efficiency and protect District assets from loss or misuse. We also appreciate the thoroughness and professionalism shown by your auditing team during the audit.

We accept the recommendation made in your draft report. Both the Board of Education and District officials will continue to monitor the District's financial condition and maintain fiscal stability.

Sincerely,

Lyn McKay  
Superintendent

LM/tkd

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to evaluate the District's financial condition. To accomplish our objective, we performed the following procedures:

- We interviewed District officials and reviewed the Board meeting minutes, resolutions and budget brochures to gain an understanding of the District's budget development and fund balance processes.
- We reviewed the general fund's results of operations from 2009-10 through 2013-14.
- We compared the general fund's budgeted revenues and expenditures to the actual revenues and expenditures from 2009-10 through 2013-14 to determine if District officials were budgeting reasonably.
- We analyzed the general fund's trends in total and restricted fund balances, including the use of appropriated fund balance from 2009-10 through 2013-14. We also compared the unrestricted fund balance to the ensuing year's budgeted expenditures to determine the fund balance availability for future years.
- We reviewed the supporting documentation for the amounts restricted for tax certiorari, retirement contribution and compensated absences to determine if the amounts reserved were reasonable.

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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

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