



# Churchville-Chili Central School District Financial Management

## Report of Examination

Period Covered:

July 1, 2012 – September 23, 2015

2015M-354



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**

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 Churchville-Chili Central School District, entitled Financial Management. 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 Churchville-Chili Central School District (District) is located in the Towns of Chili, Ogden, Riga and Sweden in Monroe 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 Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the Board's direction.

The District operates six schools with approximately 3,900 students and 700 employees. The District's budgeted appropriations for the 2015-16 fiscal year are \$79.5 million, funded primarily with State aid and real property taxes.

## Objective

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

- Did the Board and District officials effectively manage the District's finances by ensuring that budget estimates and fund balances are reasonable?

## Scope and Methodology

We examined the District's financial management for the period July 1, 2012 through September 23, 2015.

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 findings and recommendations and indicated their plans for 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 Management

The Board, Superintendent and Assistant Superintendent for Business are accountable to District taxpayers for the use of District resources and are responsible for effectively planning and managing the District's operations. One of the most important tools for managing the District's finances is the budget process. District officials must ensure that budgets are prepared, adopted and modified in a prudent manner; accurately depict the District's financial activity; and use available resources to benefit District taxpayers. Prudent fiscal management includes maintaining sufficient and appropriate balances in reserves that are needed to address long-term obligations or planned future expenditures.

The Board did not adopt realistic budgets based on historical or known trends. It consistently overestimated operating expenditures by 6 to 7 percent from fiscal years 2012-13 through 2014-15, which generated \$6.3 million in operating surpluses. The Board also budgeted for operating deficits during this time by appropriating fund balance averaging \$4.1 million each year, although these funds were never used due to the surpluses generated by the unrealistic budgets. To reduce the year-end fund balance to stay within the 4 percent limit established by New York State Real Property Tax Law (RPTL), District officials also made unbudgeted transfers to the capital projects fund and to the District's reserves. When adding back unused appropriated fund balance, the District's recalculated unrestricted fund balance has ranged from 6.0 to 7.5 percent of the ensuing year's budget, exceeding the statutory limit in each year.

These actions diminish the transparency of District finances to the taxpayers. Consequently, three of the District's six general fund reserves, which had balances totaling \$10.9 million as of June 30, 2015, are overfunded or potentially unnecessary. The District generally does not use the reserves and instead covers related costs with tax levies. These results are consistent with the trends we reported on in our last report of examination issued in April 2009.<sup>1</sup> That report stated that the District's budgeting practices compromised transparency, locked funds out of productive use and resulted in taxpayers paying more than necessary for District operations. Since that time, District officials have not taken corrective action and property taxes have been higher than necessary.

<sup>1</sup> *Churchville-Chili Central School District: Financial Condition*, 2008M-234, April 2009

## Budgeting and Fund Balance

In preparing the general fund budget, the Board is responsible for estimating what the District will spend and what it will receive in revenue (e.g., State aid), estimating how much fund balance will be available at the fiscal year-end for use to help fund the budget and balancing the budget by determining the expected tax levy. Accurate estimates help ensure that the tax levy is not greater than necessary. RPTL allows the District to retain a limited amount of fund balance (up to 4 percent of the ensuing year's budget) for unexpected events and to provide for cash flow. Fund balance in excess of that amount must be used to fund a portion of the next year's appropriations, thereby reducing the tax levy. It also can be used to fund legally established and necessary reserves, pay down debt or be used for non-recurring expenditures.

Budgeted revenues generally were reasonable; they averaged within 2 percent of actual amounts from fiscal years 2012-13 through 2014-15. However, as indicated in Figure 1, the Board and District officials adopted budgets that overestimated operating expenditures by 6 to 7 percent during this time, totaling almost \$15 million.

**Figure 1: Overestimated Appropriations**

	2012-13	2013-14	2014-15	Totals
Appropriations	\$75,304,244	\$75,945,584	\$77,325,373	\$228,575,201
Actual Expenditures <sup>a</sup>	\$70,056,485	\$71,252,912	\$72,391,706	\$213,701,103
Variance	\$5,247,759	\$4,692,672	\$4,933,667	\$14,874,098
Percentage	6.97%	6.18%	6.38%	6.51%

<sup>a</sup> Excludes interfund transfers to the capital projects fund, which are not operating expenditures, and were unbudgeted with the exception of \$100,000 each year

Three expenditure categories (salaries, health insurance and employees' retirement) were consistently overestimated by a total of \$9.8 million (15 percent) between fiscal years 2012-13 and 2014-15. Estimates for salaries should be readily attainable because they are based on employment contracts, with the exception of contract negotiation years.<sup>2</sup> District officials stated that they conservatively budgeted for health insurance due to the change of insurer rates halfway through the fiscal year. They also told us that this account is a catch-all for other expenditures, including Affordable Care Act penalties and expenditures that could result from the loss of health insurance funding in the Federal fund.

The District has also budgeted appropriations of approximately \$352,000 annually over the past three years in certain accounts that did not incur expenditures during this period. These accounts are

<sup>2</sup> The District budgeted for positions within Operations and Maintenance which have not been filled yet.

primarily composed of salaries (\$180,251), included in the figure above, copier machine costs (\$115,251) and textbook costs (\$25,065). Because the District did not expend these funds, the operating surpluses increased.

In addition, the District made unbudgeted transfers to the capital projects fund (from both restricted and unrestricted fund balance) totaling \$4.6 million over the past three years to be used for Board- and voter-approved projects. Had these transfers not been made, the District would have reported operating surpluses totaling \$6.3 million and would have had a significantly higher general fund balance. The Board should include any planned transfers for known capital projects in its adopted budgets to increase transparency and avoid the appearance of moving money to reduce fund balance to the statutory limit, while continuing to overtax property owners.

As indicated in Figure 2, the District also appropriated fund balance and reserves totaling approximately \$12.4 million<sup>3</sup> during this same time period, which should have resulted in operating deficits and reductions in fund balance and reserves. However, the District did not use any of this budgeted amount due to the operating surpluses generated largely from the overestimated expenditures. As a result, the District's fund balance has remained excessive.

Figure 2: Unrestricted Fund Balance at Year-End			
	2012-13	2013-14	2014-15
Total Beginning Fund Balance	\$25,001,534	\$25,832,327	\$25,734,273
Add: Operating Surplus/(Deficit) <sup>a</sup>	\$830,793	(\$98,054)	\$702,032
Total Ending Fund Balance	\$25,832,327	\$25,734,273	\$26,436,305
Less: Restricted Funds	\$18,620,251	\$18,563,661	\$20,138,751
Less: Encumbrances	\$1,432,757	\$1,490,813	\$1,492,832
Less: Appropriated Fund Balance for the Ensuing Year	\$2,823,397	\$2,695,310	\$1,662,181
Total Unrestricted Fund Balance at Year-End	\$2,955,922	\$2,984,489	\$3,142,541
Ensuing Year's Budgeted Appropriations	\$75,945,584	\$77,325,373	\$79,498,144
Unrestricted Fund Balance as a Percentage of Ensuing Year's Budget	3.9%	3.9%	4.0%
<sup>a</sup> The operating surplus/(deficit) calculation (revenues less expenses) includes interfund transfers.			

Because the District made unbudgeted transfers to the capital projects fund, appropriated fund balance to fund operations and funded reserves at year-end, it reported year-end unrestricted fund balance that complied with the 4 percent statutory restriction from fiscal years 2012-13 through 2014-15. However, when adding back unused appropriated fund balance, the District actually exceeded the limit in each year, as indicated in Figure 3. Recalculated unrestricted

<sup>3</sup> This includes \$4 million from reserves.

fund balance was more than 7 percent of the ensuing year's budget in fiscal years 2012-13 and 2013-14. During 2014-15, the District appropriated \$1.6 million for the 2015-16 budget; however, we project that, similar to the three prior years, it will not be needed. As such, we expect the District's unrestricted fund balance will continue to exceed the statutory limit.

The District's practice of consistently appropriating fund balance that is not needed to finance operations is, in effect, a reservation of fund balance that is not provided for by statute and a circumvention of the 4 percent statutory limit imposed on the level of unrestricted, unappropriated fund balance.

<b>Figure 3: Unused Fund Balance</b>			
	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
Total Unrestricted Funds at Year-End	\$2,955,922	\$2,984,489	\$3,142,541
Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget	\$2,725,343	\$2,695,310	\$1,662,181
Total Recalculated Unrestricted Funds	\$5,681,265	\$5,679,799	\$4,804,722
Recalculated Unrestricted Funds as a Percentage of Ensuing Year's Budget	7.5%	7.3%	6.0%

The Board increased the real property tax levy by 8 percent from the 2012-13 through 2015-16 fiscal years, with a tax rate increase of 2 percent or less each year. The Board remained within the tax cap since its inception in 2012-13.<sup>4</sup> The 2015-16 adopted budget continues the trend of appropriating fund balance and reserves and includes a 2.8 percent increase in appropriations from 2014-15. Consequently, the general fund will recognize another operating surplus, which will continue to increase the excessive fund balance level in 2015-16.

## Reserves

District officials should adopt a detailed policy or plan governing the establishment, use and funding levels and goals of reserve funds. While school districts are generally not limited as to how much money can be held in reserves, reserve balances must be reasonable and substantiated. 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.

In addition to the unused appropriated fund balance, the Superintendent and Board presented to the voters for budget approval projected uses of over \$4 million of reserve money to finance operations from fiscal

<sup>4</sup> Chapter 97 of the Laws of 2011 established a tax levy limit on all school districts beginning in the 2012-13 fiscal year and precludes a school district from adopting a budget that requires a tax levy that exceeds the prior year's tax levy by more than 2 percent or the rate of inflation, whichever is less, and certain exclusions permitted by law, without the approval of 60 percent of district voters.

years 2012-13 through 2014-15. However, these appropriated reserve funds were not necessary or used because of the surpluses generated by inaccurate budget estimates. As of June 30, 2015, the District had six general fund reserves totaling approximately \$20.1 million. We analyzed these reserves for reasonableness and adherence to statutory requirements and found the balances of the capital, tax certiorari and employee benefit accrued liability reserves totaling approximately \$9.2 million to be reasonable. However, the reserves for retirement contributions, unemployment insurance and workers' compensation, totaling approximately \$10.9 million, were overfunded and potentially unnecessary.

Retirement Contribution Reserve – By law, this reserve can only be used to pay benefits for employees covered by the New York State and Local Retirement System. The Retirement Contribution Reserve has grown from \$3.9 million at July 1, 2012 to a balance of \$7.1 million at June 30, 2015, which is over four and a half times the average annual expenditures of \$1.5 million. Although the Board budgeted to use \$2.5 million from this reserve over the last three years to cover the annual expenditure, the District's significant operating surpluses have exceeded the amounts appropriated, eliminating the need for, and use of, the reserve.

Unemployment Insurance Reserve – This reserve is allowed for reimbursing the State Unemployment Insurance Fund (SUIF) for payments made to claimants where the school district has elected to use the "benefit reimbursement" method based on actual unemployment claims.<sup>5</sup> The District has made payments to the SUIF totaling \$76,832 for the three-year period July 1, 2012 through June 30, 2015. The Board budgeted to use \$125,000 from this reserve each year, even though annual expenditures averaged \$25,611 over those three years. The District did not actually use any of the \$375,000 appropriated from this reserve due to its annual operating surpluses. The balance of the reserve was \$881,612 as of June 30, 2015, which is almost 35 times the average annual expenditures.

Workers' Compensation Reserve – This reserve is used to pay compensation and benefits, medical expenses, hospital expenses or other expenses authorized by Article 2 of the Workers' Compensation Law and to pay the expenses of administering a self-insurance program. The District participates in the Rochester Area School Workers' Compensation Plan and makes quarterly payments into the plan, which is administered by Monroe 2- Orleans BOCES. Although the Board budgeted to use this reserve annually to cover related

<sup>5</sup> The New York State Labor Law's Benefit Reimbursement option allows employers to reimburse the SUIF for benefits paid to their former employees instead of paying on a contribution basis.

expenditures (over \$1 million over three years), the District has not actually used the reserve.<sup>6</sup> Instead, the District has used operating funds to pay for workers' compensation expenses and funded the reserve by an additional \$1.26 million over this period. The balance of the reserve was \$2.92 million as of June 30, 2015, or almost eight times the average cost of the plan over the last three fiscal years (\$367,483).

Because the District does not include its funding of reserves in the annual budgets but instead funds reserves with year-end surpluses generated from inaccurate budgets, District officials have not provided the taxpayers with accurate information and the opportunity to vote on what their taxes are actually being used for. In addition, retaining unsubstantiated and potentially excessive reserve balances effectively increases the amount by which the District has exceeded statutory fund balance limits. For example, the addition of the three unsupported reserve balances to the unrestricted fund balance and unused appropriated fund balance as of June 30, 2015 equates to 21 percent of the 2015-16 budget. District officials can better support the District's reserve balances and budgetary choices by developing and updating more comprehensive budgeting, fund balance and reserve policies or plans.

Reserve Fund Policy – The Board adopted a reserve fund policy which authorizes the District to establish reserve funds in accordance with applicable laws and regulations. The policy requires that District officials provide the Board with an annual report of all reserve funds which includes the type and description of each reserve, the date each reserve was established and each amount paid into the reserve, the interest earned, the amount and date of each withdrawal from each reserve, and an analysis of the projected needs for each reserve in the upcoming fiscal year and a recommendation for funding those projected needs. The Assistant Superintendent for Business provides the Board an annual reserve report that includes the reserve balances and planned uses over the next seven years. The report does not address the establishment of each reserve, specific funding and expenses of the reserves to date or an analysis of the projected need or future funding for the reserves as required by the policy.

By maintaining excessive fund balance, both restricted and unrestricted, and not using the fund balance appropriated in adopted budgets, District officials are levying more taxes than necessary to sustain District operations. In addition, some current budgeting practices circumvented statutory controls and resulted in excessive fund balance that significantly exceeded the statutory limitation.

<sup>6</sup> Except for a transfer of \$264,951 to the retirement contribution reserve in June 2013

## Recommendations

The Board and District officials should:

1. Adopt budgets that reflect the District's actual needs and include realistic estimates based on historical trends or other identified analysis.
2. Develop a plan to reduce the amount of unrestricted fund balance in a manner that benefits District taxpayers. Such uses could include, but are not limited to, using surplus funds as a financing source, funding one-time expenditures or funding reserves to finance future capital needs and decreasing the property tax levy.
3. Review all reserve balances and determine if the amounts reserved are necessary, reasonable and in compliance with statutory requirements. To the extent they are not, transfers should be made in compliance with statutory requirements.

The Board should:

4. Require District officials to present an annual reserve report that complies with the Board established reserve funds policy.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



# Churchville-Chili Central School District

*Where learning leads to a lifetime of opportunities*

**Ms. Loretta J. Orologio**

*Superintendent of Schools  
x2300*

**Superintendent's  
Executive Cabinet**

Mr. Franklin C. Nardone, CPA  
*Assistant Superintendent for Business  
Services and District Clerk  
x2330*

Mr. Giulio Bosco, Jr.  
*Assistant Superintendent for  
Instruction  
x2310*

Mr. Lawrence M. Vito  
*Assistant Superintendent for Human  
Resources  
x2320*

Ms. Amanda F. Puleo  
*Communication Coordinator and  
Administrative Assistant to the  
Superintendent  
x2300*

March 23, 2016

Mr. Edward V. Grant, Jr., Chief Examiner  
Office of the State Comptroller  
The Powers Building  
16 West Main Street – Suite 522  
Rochester, New York 14614

Dear Mr. Grant:

The Churchville-Chili Central School District has received and reviewed the draft Financial Management Report of Examination for the audit period July 1, 2012 – September 23, 2015. On behalf of the Board of Education and administration, we appreciate this opportunity to reply to the findings and to offer our responses to the audit recommendations.

The Comptroller's Office performed a thorough examination of the District's financial practices. We take pride in knowing that no fraud, waste or abuse was detected during this examination. Further, we appreciate the cooperative and professional manner in which the auditors conducted the audit.

The Churchville-Chili Board of Education and District administration endeavor to maintain the highest standard of fiscal management. We understand the importance of balancing the needs of our curriculum and instruction with our residents' preferences for course offerings, desire for quality facilities, and the financial strain of additional taxes. We take seriously our goal of "promoting cost effectiveness, and developing and managing a budget that provides a quality education in a fiscally responsible manner."

A commitment to long-range and responsible planning has allowed the District to sustain a consistent rigorous curriculum and a variety of extra-curricular opportunities amid state aid reductions, unfunded mandates, pension cost increases and technology integration. The District has maintained an average levy increase of 1.93% and a tax rate decrease of 0.54 % over the past nine years. Our commitment to, and partnership with, our taxpayers precedes the legislative tax cap. This is well demonstrated by our budget and capital project vote passage rates.

In this reply letter, we have included both the District's response and the corrective action plan. The corrective action plan was reviewed and approved by our audit committee on March 22, 2016 and was approved by our Board of Education at its March 22, 2016 meeting.

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**Audit Recommendation #1:** The Board and District officials should adopt budgets that reflect the District's actual needs and include realistic estimates based on historical trends or identified analysis.

District Response:

Our District utilizes a conscientious approach to develop our budget which includes inter-departmental involvement, a comparison of previous years to identify spending and revenue trends, identification of curriculum and instructional goals focused upon the quality of education our students are experiencing, and an examination of how financial decisions will impact future budgets.

Our District is financially diligent and committed to not overspending our budget. We focus on centralizing and streamlining services and activities wherever possible to ensure that we meet the obligations and expectations of our community of continuing to offer quality educational opportunities. State law allows contingency appropriations of up to 10% for counties, towns and villages; however, there is no such provision in Education Law. The reality of a contingency budget to a school district is a reduction in programs and opportunities for our students. Ever conscious of this, our District has expended, on average, approximately 94% of the budgeted expenditures during the audit period. Moody's Investor Services has commended our budget practices in granting Churchville-Chili an Aa3 rating, in the top tiers of the rating system.

The tax cap directive placed on school districts only adds to the financial pressure of each budget decision made by our District. Administrators must operate in a financially solvent manner while still hiring highly qualified staff and providing necessary educational tools, technology, and curriculum. In addition, the District must ensure our facilities are energy efficient and provide a safe and comfortable environment. Our community has continuously supported our schools and we honor and value the trust they place in us by communicating openly and frequently and making decisions that are in the best interest of our students.

Action Plan:

Our District has prepared budgets in a conservative manner over the years in an attempt to offset unforeseen spikes in costs and/or mid-year State aid or County revenue reductions. Although the District is conservative in its budgeting practices, we are also very fiscally responsible to our constituents. The Administration and Board of Education will continue this budgeting approach for the 2016-2017 budget while being less conservative on its estimates and still maintain a sound fiscal plan whereby offering the best educational programs to our students at the most efficient and responsible cost to our taxpayers. Additionally, the Board will formally establish reasonable targets for budget variance.

**Audit Recommendation #2:** The Board and District officials should develop a plan to reduce the amount of unrestricted fund balance in a manner that benefits District taxpayers. Such uses could include, but are not limited to, using surplus funds as a financing source, funding one-time expenditures or funding reserves to finance future capital needs and decreasing the property tax levy.

District Response:

The District prepares budgets that promote sound learning experiences for students while considering the community's ability to support these opportunities. One of our district goals is "promoting cost effectiveness, and developing and managing a budget that provides a quality education in a fiscally responsible manner." This goal is important since our community pays about 50% of our costs and yet every student deserves the best public education we can provide.

Over the years our District has not only financed the budget by appropriating fund balance and reserves which have kept the tax levy down, but we have also financed significant capital projects through the use of a capital reserve fund. This reserve alone has allowed us to present five phases of capital improvement projects totaling over \$100,000,000 to the community at no additional tax levy cost. All five phases were overwhelmingly approved. The Board and Administration are very proud of this accomplishment, as well as the community which is evident in their continued support. In addition, more recently, the Board and Administration have utilized the year end surplus to cover our local share of the Monroe 2 Orleans BOCES capital improvement project. Had there not been surplus funds available, our District's taxpayers would have paid the cost in the form of a tax levy increase.

#### Action Plan:

As stated above, our District has and will continue to use surplus funds to subsidize reserves that the Board of Education determines are needed for the future financial well-being of the District as well as to reduce property taxes, which has been done many times in the past. If future surplus funds are generated, the District will not only continue to consider these items, but also consider using such funds to pay down future debt and/or finance one time expenditures.

**Audit Recommendation #3:** The Board and District officials should review all reserve balances and determine if the amounts reserved are necessary, reasonable and in compliance with statutory requirements. To the extent they are not, transfers should be made in compliance with statutory requirements.

#### District Response:

In accordance with Board Policy, the Board and Administration annually review and adopt a reserve plan as part of its budget process. This review identifies the current status of the reserve funds and a funding plan to offset ongoing expenditures, resulting in sufficient funds when those anticipated expenditures actually occur. The Board and Administration utilize this plan to anticipate and prepare for major expenses and replacement projects. This audit review identified two reserves as being potentially overfunded; the Unemployment Insurance Reserve and the Workers Compensation Reserve.

#### Unemployment Insurance Reserve:

The audit states this reserve is funded at a level thirty-five times more than what is annually expended and has not been used to cover costs over the years. While this statement is accurate, looking at past unemployment expenses is not a realistic approach to fiscal management given the current economic uncertainties. Should the District be forced to have layoffs like many of our neighboring districts, our District would have significant increases to our unemployment expenses. If there is a decrease in state aid, program reductions may result in the elimination of positions in order to present a reasonable budget to our voters. A layoff of between twenty to forty staff members would use up this reserve fund within one year. Although our District appropriately funded this reserve in accordance with General Municipal Law, based on recently adjusted NYS funding of State Aid, our District does agree that the reserve could be reallocated in future budgets.

#### Action Plan:

The Board and Administration will begin discussing reallocation of the Unemployment Insurance Reserve as we prepare the 2016-2017 budget.

### Workers Compensation Reserve

The audit states that this reserve has not been used to cover yearly costs. While this statement is accurate, the District's rationale for maintaining this reserve has been to anticipate significant cost increases in workers compensation. Having this reserve available assists with unexpected accidents or injuries that occur. With that said, this reserve which was appropriately funded according to General Municipal Law, shall be reviewed to determine if such a balance is needed going forward.

### Action Plan

The Board and Administration will discuss other financial uses of the Workers Compensation reserve to assist in the financial interests of our students and the community.

**Audit Recommendation #4:** The Board should require District officials to present an annual reserve report that complies with the Board established Reserve Funds policy.

### District Response:

Boards of Education members are elected local officials who are directly accountable to their constituents for the public schools in their communities. Providing a high quality academic experience to children who live within the District in a fiscally responsible manner is the number one priority of the Board. The Board must balance the cost of public education in New York State while continuing to offer an educational environment which provides instructional excellence and extracurricular opportunities to our students.

Although the majority of the Board established reserve funds are discussed with the Board each year, some items such as the date the reserve was established, interest earned and the date of each withdrawal have been omitted.

### Action Plan:

As the 2016-2017 budget is prepared, the District will review each reserve fund with the Board in accordance with Board policy.

The Churchville-Chili Central School District appreciates the thorough effort and communication with the auditors throughout the process. We are committed to the use of taxpayer resources in an efficient, effective and responsible manner. Your audit is an important perspective and will provide guidance as we continue to make the best decisions possible for our community and our students.

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Kathleen C. Dillon  
Board of Education President

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Loretta J. Ortolio  
Superintendent of Schools

## **APPENDIX B**

### **AUDIT METHODOLOGY AND STANDARDS**

The objective of our audit was to examine the District's financial management for the period July 1, 2012 through September 23, 2015. To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials to gain an understanding of the budget process. We reviewed financial information provided to the Board and reviewed the Board minutes for financial discussions.
- We compared the adopted general fund budgets for 2012-13 through 2014-15 with the actual results of operations to determine if the budgets were realistic and structurally balanced.
- We reviewed budget modifications for the 2014-15 fiscal year to determine if account codes were overexpended.
- We reviewed the proposed general fund budget for 2015-16 to determine whether the budgeted revenues and appropriations were reasonable and if fund balance trends would continue.
- We reviewed the real property tax warrants, receipts and levy increases.
- We compared unrestricted, unappropriated funds to the ensuing year's appropriations to determine if the District was within the statutory limit.
- We reviewed District reserve accounts and related expenditures to determine if reserves were properly and legally established, were being funded or used and had reasonable balances. We also determined if transfers were appropriate.

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**

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**APPENDIX D**  
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**DIVISION OF LOCAL GOVERNMENT**  
**AND SCHOOL ACCOUNTABILITY**

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

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