

SPACKENKILL UNION FREE SCHOOL DISTRICT

**Communication of Matters Related to Internal Control
Over Financial Reporting and Other Matters
October 2013**

Bonadio & Co., LLP
Certified Public Accountants

REQUIRED COMMUNICATIONS

October 11, 2013

To the Board of Education of the
Spackenkill Union Free School District:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Spackenkill Union Free School District (District) for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 8, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 2 to the financial statements. As described in Note 2, the District adopted a new accounting policy related to the reporting of net assets by adopting Governmental Accounting Standards Board Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. We did not note any changes the application of existing policies during 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District's financial statements were:

Management's estimate of the accrued compensated absences is based on estimated hours and pay rates as of June 30, 2013.

Management's estimate of the depreciable lives of property and equipment is based on judgments regarding the length of time an asset will provide value to the District.

Management's estimate of the other postemployment benefits is based on an actuarial calculation from a third party actuary.

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We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements was (were):

The disclosure of net position and fund balance classifications in Note 2 to the financial statements describes the classifications and the components of each.

The disclosures related to long term debt in Note 8 to the financial statements describes the types of debt taken on by the District showing the current year activity relating to each form of debt. Note 8 also identifies the current portion, interest rate and maturity of each long term debt balance.

The disclosure of other postemployment benefits in Note 11 to the financial statements describes the assumptions used and the components of the actuarial determined obligation.

The disclosure of commitments and contingencies in Note 13 to the financial statements describes the different commitments and contingencies the District has entered into or is exposed to.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. See listing of audit adjustments and uncorrected differences at Exhibit I.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 11, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Education and management of Spackenkill Union Free School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Bonadio & Co., LLP

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SPACKENKILL UNION FREE SCHOOL DISTRICT

Exhibit I

**SUMMARY OF AUDIT ADJUSTMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

I. FUND FINANCIAL STATEMENTS

Audit adjustments - Current Year:

General Fund:

Client adjustment to properly absorb effect of prior years' summer handicapped writeoffs.
B&Co. adjustment to properly stated compensated absences accrual at 6/30/13.
B&Co. adjustment to properly record retirement incentive accrual at 6/30/13.

	<u>Increase (Decrease) to Fund Net Assets</u>
	\$ (215,798)
	105,221
	<u>(61,002)</u>

Total Audit adjustments- General Fund

\$ (171,579)

School Lunch Fund:

B&Co. adjustment to properly state free and reduced school lunch revenue and accounts receivable at 6/30/13.

\$ 4,843

Federal Fund:

Client adjustment to properly report summer handicapped revenue based on 80/20 rule at 6/30/13.
Client adjustment to properly report grant revenues at 6/30/13.

\$ (99,669)
1,446

Total Audit adjustments- Federal Fund

\$ (98,223)

II. UNCORRECTED AUDIT DIFFERENCES

General Fund:

To correct overstatement of TRS Liability .
To write off uncollectible Excess Cost A/R from prior years.
To write off uncollectible MTA reimbursement A/R from prior years.
Total Uncorrected audit differences

\$ 79,001
(21,405)
(24,375)
\$ 33,221

October 11, 2013

To the Board of Education of the
Spackenkill Union Free School District:

In planning and performing our audit of the financial statements of Spackenkill Union Free School District (the District) as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that are considered to be *material weaknesses* or *significant deficiencies* and, therefore, *material weaknesses* or *significant deficiencies* may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be *significant deficiencies*.

A deficiency in internal control exists when the design or operation might be material of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be *material weaknesses*.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a *material weakness*, yet important enough to merit attention by those charged with governance.

This communication is intended solely for the information and use of the Board of Education, Audit Committee, management and others within the District and is not intended to be and should not be used by anyone other than these specified parties.

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**COMMUNICATION OF MATTERS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS
OCTOBER 2013**

I. STATUS OF PRIOR YEAR COMMENTS

The June 30, 2013 audit was the third performed by Bonadio & Co., LLP.

The recommendations that follow represent our observations in connection with the 2013 audit as well as certain recommendations from the prior year that had not been fully implemented. The status of our observations and recommendations from the prior year are as follows:

	<u>Completed</u>	<u>In-Process</u>
Prior year recommendations:		
Technology Conversion		X
Cash Receipts Segregation of Duties	X	
Bank Reconciliation Process	X	
Accounting Policies	X	
Accounting Procedures		X

II. CURRENT YEAR COMMENTS

A. REVIEW OF SUMMER HANDICAPPED PROGRAM COLLECTION PROCESSES

Observation

During our audit, we noted a significant number of prior years' outstanding summer handicapped receivable balances recorded in the Federal fund. During the audit, \$215,798 of these receivables were written off, as Management deemed these amounts uncollectable. Due to the financial condition at the state and federal level, the proper billing and timely collection of receivables has become more important than ever before as significant decreases in funding remain possible.

Recommendation

We recommend that the District review its procedures related to the Summer Handicapped program and the manner in which the District pursues the collection of its related billings. The District should ensure that timely follow up is being done to help improve the collection results on outstanding receivables. This will help to ensure that the District receives the funding that it is entitled to as soon as feasibly possible. Although the District did receive some small cash receipts for claims related to prior years in the current year, we agree with Management's decision to write off a significant portion of the long outstanding balances. The District should continue to review outstanding claims and perform frequent follow up in future years, and if necessary, write off uncollectable balances.