

MANAGEMENT LETTER

October 1, 2019

The Audit Committee, Board of Education,
and Management
Yorkshire-Pioneer Central School District

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the remaining fund information of Yorkshire-Pioneer Central School District (the District) as of and for the year ended June 30, 2019, 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.

A deficiency in internal control exists when the design or operation 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

OBSERVATIONS

1. Unassigned fund balance over 4% and use of appropriated reserves

The unassigned fund balance in the general fund was \$4,996,000 at June 30, 2019. This represents 8.9% of the 2020 budget, which exceeds the maximum of 4% as required by New York State Real Property Tax Law. In addition, we noted that the District budgeted use of its debt service and employee benefit accrued liability reserves for 2019 but such use was not required.

The District has established and funded reserves over the years as a result of conservative budgeting and prudent spending. The reserves were established to permit the continuity of programs while having specific funds available to meet the needs of the District where costs are expected to rise. These reserves provide a certain "hedge" to fund expenditures with minimal impact on taxes and programs.

The current property tax levy cap mandated by State law imposes an expectation and necessity that reserves will be used to balance budgets in future years. The District must plan cautiously, but has available resources that could be used to offset increases in required payments for the New York State and Local Employees' Retirement System, employee accrued and earned sick and vacation time, unemployment claims, capital expenditures, and debt service. It is our understanding that management has implemented a plan to systematically use the District's unassigned fund balance and reserves.

2. Extraclassroom Activities

During the testing of extraclassroom activities, we noted several instances of missing or incomplete documentation. We recommend that all documentation and approvals be obtained prior to depositing funds and issuing checks.

INFORMATIONAL POINTS - ACCOUNTING STANDARDS UPDATES

The following are for informational purposes only and we do not consider it necessary for management to include a response:

- GASB Statement No. 84, *Fiduciary Activities*, is effective for the District's year ending June 30, 2020. This statement establishes criteria for identifying fiduciary activities and generally focuses on whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. This statement describes four fiduciary funds that should be reported, if applicable, and requires presentation of a statement of fiduciary net position and a statement of changes in fiduciary net position for each. It will impact the District's accounting for payroll liabilities, scholarships, and extraclassroom activities.
- GASB Statement No. 87, *Leases*, is effective for the District's year ending June 30, 2021. It requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and that recognized income or expenditures, based on the payment provisions of the contract. Under this statement, a lessee is required to recognize a lease as a liability and an intangible right-to-use lease asset and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

PRIOR YEAR RECOMMENDATIONS

Included in our current year procedures is an update of the status of recommendations made in previous audits. Recommendations not mentioned elsewhere are as follows:

- We continue to recommend the District create policies and procedures to monitor, record, and, when necessary, reimburse the school lunch fund for delinquent accounts in accordance with the NYS law enacted July 1, 2018. We understand the District made the necessary transfers to the school lunch fund during the 2019-2020 fiscal year.
 - We continue to suggest that unpaid extraclassroom activity advisors be approved by the Board on an annual basis.
 - We previously recommended that management review the interfund balances and liquidate interfund activity as soon as practical. We noted that during 2019 the interfund balances were liquidated appropriately.
 - We had previously recommended the District use a \$5,000 threshold to capitalize assets to reduce the recordkeeping burden of using a lower threshold. We are pleased to report that the threshold has been increased for fiscal year 2020.
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We have discussed these comments with District personnel and would be pleased to discuss them in further detail, perform any additional studies, or assist you in implementing the recommendations.

This communication is intended solely for the information and use of the District's management, Audit Committee, and Board of Education; others within the District; the NYS Education Department Office of Audit Services; and the Office of the NYS Comptroller, Division of Local Government and School Accountability. It is not intended to be, and should not be, used by anyone other than these specified parties.

Lumaden & McCormick, LLP