

MANAGEMENT LETTER

September 19, 2017

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, 2017, 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 approximately \$4,886,000 at June 30, 2017. This represents 8.9% of the 2018 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 2017 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. Management has implemented a plan to systematically use the District's unassigned fund balance and reserves.

2. Community swim cash receipts

During the audit, we noted that cash received from participants in community swim classes lacked documentation, including participant data, and a cash reconciliation process. We recommend that a formal reconciliation process be implemented that reconciles cash received to the number of participants. Additionally, all participants in the classes should provide basic information and emergency contact information.

INFORMATIONAL POINTS

The following points are for informational purposes only and we do not consider it necessary for management to include responses within the District's corrective action plan.

3. Upcoming changes due to GASB Statement No. 84

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.

4. Upcoming changes due to GASB Statement No. 87

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 previously were classified as operating leases and recognized as 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

As recommended in the prior year, we continue to suggest that unpaid extraclassroom activity advisors be approved by the Board on an annual basis.

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.

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