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MANAGEMENT LETTER

October 9, 2018

The Audit Committee, Board of Education,
and Management
Grand Island 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 Grand Island Central School District (the District) as of and for the year ended June 30, 2018, 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. Deficit fund balance in the school lunch fund

The District's school lunch fund deficit has grown to $763,000 as of June 30, 2018, a decrease of $125,000 from 2017. The District has experienced an annual decline in fund balance since 2008, a cumulative decrease of $1,088,000 over the past 11 years. Total sales, exclusive of free and reduced reimbursements, have hovered at about $500,000 over the past four years. The school lunch fund has cumulatively borrowed $938,000 from the general fund as of June 30, 2018 to finance operations. We recommend that the District consider providing the school lunch fund with a permanent transfer and develop a strategy that will allow food service operations to be self-sufficient in the future. You may need a consultant or consider using an outside party to manage food service operations.

INFORMATIONAL POINTS – ACCOUNTING STANDARDS UPDATE

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

- GASB issued 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. It establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease as a liability and an intangible right-to-use lease asset.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, is effective for the District's year ending June 30, 2019. It requires disclosure in the footnotes for additional information related to debt, including unused lines of credit, assets pledged as collateral, and terms specified in debt agreements related to significant events of default, termination events with finance-related consequences, and significant acceleration clauses.

PRIOR YEAR RECOMMENDATIONS

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

- We continue to recommend that the District use pre-numbered receipts for ticket sales for sport and theatre events, perform regular reconciliations (with first and last tickets attached) when cash is collected outside the Business Office, and ensure timely remittance of cash deposits to the Business Office after each event.
- We continue to recommend that commingled trust and agency funds be separated into proper private-purpose trust funds and agency funds.
- Interfund borrowings are required to be short-term and designed to facilitate cash flow between the various operating funds. The District has continued to accumulate these funds. A formal reconciliation should be prepared and interfund borrowings must be liquidated.
- We continue to recommend that bank statements should be opened by someone other than the preparer and reviewed prior to the preparation of the bank reconciliation.
- We again noted an extraclassroom activity student ledger that did not agree to the central treasurer's ledger. The primary reason of the differences was due student club treasurers having left for the summer. We encourage the District to reconcile club activity timely and coordinate with club treasurers to ensure both sets of ledgers agree at the end of the fiscal year.
- We recommend that the District improve its capital asset records by maintaining one comprehensive database to ensure the accuracy of the information in conjunction with the full valuation of fixed asset inventory once the capital project is completed.
- During fiscal 2018, we noted that personnel clerks input employee pay rates and the Assistant Superintendent for Business reviews edit reports that identify the changes.

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.

Lumsden & McCormick, LLP