East Ramapo Central School District, New York

Communication of Internal Control Matters Identified in the Audit to Those Charged with Governance and Management

June 30, 2013

O'CONNOR DAVIES

PKF

Communication of Internal Control Matters Identified in the Audit to Those Charged with Governance and Management

The Board of Education
East Ramapo Central School District
105 South Madison Avenue
Spring Valley, New York 10977

Auditors' Communication on Internal Control

In planning and performing our audit of the basic financial statements of the East Ramapo Central School District, New York ("School 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 School 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School 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 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 deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, as indicated in the attached Addendum A, we share for your consideration other observations about the internal control and operations. In Addendum B, we identify other accounting and auditing matters for your information.

This communication and addenda are intended solely for the information and use of management and the Board and are not intended to be and should not be used by anyone other than these specified parties. We will be pleased to discuss these communications and comments in further detail at your convenience, or to assist you in implementing the recommendations.

O'Connor Davies, LLP

O'Connor Davies, LLP
Harrison, New York
October 17, 2013

East Ramapo Central School District, New York

Addendum A

Control Deficiencies

- **General Fund**

Fund Deficits

One element in the evaluation of a School District's creditworthiness is the level of fund balance retained. The amount of fund balance retained among governmental entities varies depending upon fiscal policy and statutory requirements. The larger the fund balance retained, the stronger the financial condition. School Districts, however, cannot employ policies that only serve the dictates of a financial community. A School District's fiscal policy must establish a delicate balance between taxpayer demands, the programmatic needs of the students, fairness with the employees of the School District and the School District's long-term fiscal objectives.

Fund balance generally should be retained at a level that relates to the economically sensitive revenues and expenditures included in the budget. An assessment of contingencies should also be a determinant in developing a desired fund balance level, with a realization that a School District is limited by law to retaining 4% of its budget in unassigned fund balance. The School District's General Fund unassigned fund balance, exclusive of encumbrances, at June 30, 2013 reflects a deficit of $7,972,214. This has been the result of 1) the reliance upon a significant portion of fund balance being appropriated each of the past several years to provide property tax relief, 2) the overestimation of certain revenue sources that ultimately were not realized and 3) the underestimation of certain appropriation categories. At the same time, certain costs, particularly fringe benefits (contributions to the New York State pension funds for teachers and employees and the rise in health insurance costs) and contractual salary commitments have increased costs dramatically. This will require the School District to consider a variety of options in balancing future budgets. The School District is already seeing the initial impact of this negative fund balance position. Not only has the School District needed to increase its cash flow borrowings in the form of tax anticipation notes, but also had to issue a budget note of $7.4 million to bridge the gap between budgeted expenditures and actual costs.

Additionally, during the 2012-13 fiscal year, the School Lunch Fund's operations resulted in the creation of a deficit fund balance of $436,438 at June 30, 2013. This primarily resulted from the allocation of certain overhead costs without a comparable amount of revenues.

Recommendation

We suggest that a detail assessment be conducted that would outline the School District's need for resources now that fund balance is no longer an available "revenue" source to balance the operating budget. We believe that consideration should be given to the development of a multi-year financial plan that would provide for long-term fiscal stability. We also believe that it would be prudent for the School District to establish a fund balance retention policy in order to ensure stability in the School District's tax rate as well as its overall financial condition. In the School Lunch Fund, a review of the pricing structure for meals should be considered so that costs to operate can be covered.

East Ramapo Central School District, New York

Addendum A

Control Deficiencies

- **Capital Projects Fund**

Project Deficit

The Capital Projects Fund is used to account for the construction of major capital facilities. Our audit of the Capital Projects Fund identified that the Warehouse Capital Project that has been completed has a deficit fund balance of $20,445. The audit also identified a deficit in the Various District Improvements Capital Project of $649,172. These deficits arose because of expenditures exceeding current financing on the projects. These deficits can only be eliminated with the receipt of monies authorized from an adopted General Fund budget.

Recommendation

We recommend that these deficits be addressed. A provision must be made in a future General Fund budget to provide the necessary transfer of resources that would eliminate any remaining deficits.

- **Cash**

Outstanding Checks

During our audit we noted that the bank reconciliation for the payroll account reflected outstanding checks which were over one year old, aggregating $250,662. Of this amount, one employee has outstanding, uncashed paychecks totaling $194,790, dating back as far as 2006.

Recommendation

We recommend that management determine the reason that paychecks have remained outstanding for such an extended period of time. After every effort has been exhausted, the Business Office should seek legal advice as to the proper disposition of these funds.

- **Special Purpose Fund**

The Special Purpose Fund is used to account for assets held by the School District in accordance with the terms of a trust or scholarship agreement. Our review of the Special Purpose Fund indicated that, for several of these accounts, there was no activity during 2012-2013, since the balances remained unchanged from the prior year. These accounts aggregate to approximately $15,237 at June 30, 2013.

Recommendation

We recommend that the School District examine the status of all inactive trust accounts and, if applicable, either transfer the monies to the General Fund with Board of Education approval or remit payments back to the appropriate depositor.

East Ramapo Central School District, New York

Addendum A

Control Deficiencies

- **Extraclassroom Activity Funds**

Extraclassroom activity funds are defined as funds raised other than by taxation in the name of a school student body. These funds are operated by and for the students and are an integral part of the educational program of the School District. As part of our audit, we have reviewed, evaluated and tested the Extraclassroom Activity Funds. The results of our tests disclosed the following weaknesses:

Lack of Financial Activity

We noted that there were several clubs in the Spring Valley Senior High School and the Ramapo Senior High School that had no financial activity during the fiscal year under audit. State Education Department regulations provide that the funds of a discontinued activity shall automatically revert to the account of the general student organization or to the student council and shall be expended in accordance with that organization's constitution.

Recommendation

We suggest that a determination of the status of the clubs with no financial activity be made to determine the proper disposition of funds. If the clubs are determined to be inactive, the funds should be transferred to the general student organization to be used in accordance with the regulations of the Commissioner of Education.

Addendum B

Other Matters

- **Governmental Accounting Standards Board ("GASB") Statement No. 65 *"Items Previously Reported as Assets and Liabilities"***

In June 2011, the Governmental Accounting Standards Board ("GASB") issued Statement No. 63. This Statement provided financial reporting guidance for deferred outflows of resources and deferred inflows of resources that were introduced in GASB Concept Statement No. 4, issued in June 2007. Concepts Statement No. 4, *Elements of Financial Statements,* established definitions for the seven fundamental components of historically based financial statements of state and local governments. These elements are defined as follows:

- *Assets* are resources with present service capacity that the government presently controls.
- *Liabilities* are present obligations to sacrifice resources that the government has little or no discretion to avoid.
- An *outflow of resources* is a consumption of net position by the government that is applicable to the *current* reporting period.
- A *deferred outflow of resources* is a consumption of net position by the government that is applicable to a *future* reporting period.
- An *inflow of resources* is an acquisition of net position by the government that is applicable to the *current* reporting period.
- A *deferred inflow of resources* is an acquisition of net position by the government that is applicable to a *future* reporting period.
- *Net position* is the residual of all other elements presented in a statement of net position.

The GASB introduced this Statement since previous financial reporting standards did not include guidance for reporting these *resource* elements, which are distinct from assets and liabilities. This Statement amended the net asset reporting requirements in GASB Statement No. 34 *"Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments"* and other applicable pronouncements by incorporating the deferred inflow and outflow of resources into the definitions of the required components of the residual measure and by renaming that measure as *net position*, rather than *net assets*. The provisions of this Statement were effective for the School District's financial statements for the year ending June 30, 2013 and were incorporated in the financial statements.

While GASB Concepts Statement No. 4 established the elements and Statement No. 63 established the framework and guidance for the new reporting model, Statement No. 65, issued in March 2012, established accounting and financial reporting standards that reclassify, as deferred outflows or deferred inflows of resources, certain specific items that were previously reported as assets and liabilities. Specifically, this Statement addresses changes in the reporting of 1) refunding of debt, 2) non-exchange transactions, 3) sales of future revenues and intra-entity transfers of future revenues, 4) debt issuance costs and 5) leases and other less common transactions.

This Statement also clarified previous guidance in regards to revenue recognition in governmental funds. While there is no change in the concept that financial resources should be recognized in the accounting period in which they become both measurable and available, under this Statement, revenue that does not meet the availability criteria is to now be reported as deferred inflow of resources, rather than as deferred revenues in the liability section. **The provisions of this Statement are effective for the School District's financial statements for the year ending June 30, 2014.**

Addendum B

Other Matters

- **Governmental Accounting Standards Board ("GASB") Statement No. 68 *"Accounting and Financial Reporting for Pensions"***

In June 2012, GASB issued Statement No. 68. This Statement establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. This pronouncement supersedes Statement No. 27, *"Accounting for Pensions by State and Local Governmental Employers."* Under this previous standard, *cost-sharing multiple employer defined benefit plans* (such as the plans administered by the State of New York for its municipalities and school districts) which share their assets *and* their obligations to provide pension benefits to their employees – i.e. plan assets can be used to pay the pensions of the employees of any municipal or school district employer that provides pensions through the plans, have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plans' own financial statements for all of the participating municipalities and school districts combined.

The new Statement was designed to give users of the financial statements of cost-sharing employers access to better, more transparent financial information through the municipality or school district's own financial statements. Under the new standards, cost-sharing employers will be required to report in their Statement of Net Position a net pension liability, pension expense and pension related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all of the municipalities and school districts in the plan. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees and their beneficiaries.

Statement No. 68 expands disclosures in the notes to financial statements and the required supplementary information ("RSI"). The note disclosures must include 1) a description of the plan(s) and the benefits provided, 2) the significant assumptions employed in the measurement of the net pension liability, 3) descriptions of benefit changes and changes in assumptions, 4) assumptions related to the discount rate and the impact on the total pension liability of a one percentage point increase or decrease in the discount rate and 5) the net pension liability and deferred inflows and outflows of resources. The RSI must provide ten year historical information (when available) regarding the entity's proportionate share of the net pension liability and a schedule of the entity's contributions. Notes to RSI are also now required regarding factors that significantly affect the trends in the schedules.

It is important to note that Statement No. 68 relates to *accounting and financial reporting* issues only, that is, how pension costs and obligations are measured and reported in the entity's audited financial statements. This Statement *does not* address how the entity approaches the *funding* of the plan. **The provisions of this Statement are effective for the School District's financial statements for the year ending June 30, 2015, with earlier implementation encouraged.**

East Ramapo Central School District, New York

Communication of Matters Identified in the Audit to Those Charged with Governance

We have audited the financial statements of the East Ramapo Central School District, New York ("School District") as of and for the year ended June 30, 2013, and have issued our report thereon dated October 9, 2013. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated April 20, 2011, as amended by an addendum dated July 22, 2013. This letter provides additional required communications related to our audit.

Our responsibility under professional standards

Our responsibility is to form and express an opinion about whether the financial statements, which are the responsibility of management, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). Those individuals charged with governance of the School District are responsible for the oversight of the financial reporting process, and our audit does not relieve management and those charged with governance of their respective responsibilities.

Our responsibility for the supplementary information accompanying the financial statements is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

With respect to such supplementary information, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with US GAAP, the method of preparing it has not changed from the prior year, 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.

In connection with our audit we performed tests of the School District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned scope and timing of the audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Qualitative aspects of significant accounting practices

Significant accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 to the financial statements. There has been no initial selection of accounting policies and no changes in significant accounting policies or their application during the reporting period that had a significant impact on the financial statements. No matters have come to our attention that would require us to inform you about (1) the methods used to account for significant unusual transactions, and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Qualitative aspects of significant accounting practices *(Continued)*

Significant accounting estimates

Accounting estimates made by management are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Actual results could differ from those estimates.

Certain accounting estimates are particularly sensitive because of their significance to financial statements and their susceptibility to change, such as:

- Actuarial assumptions related to the Other Post Employment Benefit Obligations ("OPEB")
- Asset lives for depreciable capital assets
- Estimates of certain receivable balances and allowances for uncollectible amounts
- Estimates for certain operating and long-term liabilities

Management believes that the estimates used and assumptions made are adequate based on the information currently available. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements as a whole.

Financial statement disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements relate to:

- Pension plan information
- Other post employment benefit obligations payable
- Outstanding bonded indebtedness
- Fund balances

The financial statement disclosures are consistent and clear.

Significant difficulties encountered during the audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and corrected misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management.

We are required to communicate to you misstatements that remain uncorrected, including any related to prior periods, and the effect, if any, that they may have on the opinion in our report, and request their correction. There are no such financial statement misstatements that remain uncorrected.

Uncorrected and corrected misstatements *(Continued)*

In addition, we are required to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The adjusting journal entries following this communications letter summarize the material misstatements that were corrected by management.

Disagreements with management

For purposes of this letter, a disagreement with management is a matter, whether or not resolved to our satisfaction, concerning financial accounting, reporting, or auditing, which could be significant to the financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Representations requested from management

We have requested certain written representations from management in a separate letter dated October 9, 2013.

Management's consultations with other accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other matters discussed with management

We generally discuss with management a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the School District, and plans and strategies that may affect the risks of material misstatement. None of the matters discussed and our responses thereto were a condition to our retention as auditors.

We have provided our comments regarding deficiencies and other matters noted during our audit in the attached addenda.

Auditor independence

We affirm that O'Connor Davies, LLP is independent with respect to the School District in accordance with professional standards.

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

Client: *546142.001 - EAST RAMAPO CENTRAL SCHOOL DISTRICT, NEW YORK*
Engagement: *546142.001 - EAST RAMAPO CENTRAL SCHOOL DISTRICT, NEW YORK*
Period Ending: *6/30/2013*
Trial Balance: *7110.00 - General Fund*
Workpaper:

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1		**7110.03A**		
To reclass budget revenue to budget note payable.				
5789.000	Other Debt Unusual Items		7,777,364.00	
5789.200	Bonds Issued			364,873.00
622.00	Budget Note Payable			7,412,491.00
Total			**7,777,364.00**	**7,777,364.00**