

**HORSEHEADS CENTRAL SCHOOL DISTRICT
EXTRACLASSROOM ACTIVITY FUNDS**

**Statement of Cash Receipts and Disbursements
for the Year Ended June 30, 2009
Together with
Independent Auditors' Report**

Bonadio & Co., LLP
Certified Public Accountants

**HORSEHEADS CENTRAL SCHOOL DISTRICT
EXTRACLASSROOM ACTIVITY FUNDS**

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JUNE 30, 2009**

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INDEPENDENT AUDITORS' REPORT

November 18, 2009

To the Board of Education of the
Horseheads Central School District:

We have audited the statement of cash receipts and disbursements of the Extraclassroom Activity Funds of the Horseheads Central School District (the District) for the year ended June 30, 2009. This financial statement is the responsibility of the District's management. Our responsibility is to express our opinion on this financial statement based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of cash receipts and disbursements is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of cash receipts and disbursements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation of the statement of receipts and disbursements. We believe that our audit provides a reasonable basis for our opinion.

Internal accounting controls are limited over the cash receipts from the point of collection to the time of submission to the Central Treasurer. Accordingly, it was impracticable to extend our audit of such receipts beyond the amounts recorded.

As described in Note 1, this financial statement has been prepared on the cash receipts and disbursement basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, except for the effect of any adjustments that might have been determined to be necessary had we been able to audit cash receipts, the financial statement referred to in the first paragraph presents fairly, in all material respects, the cash receipts and disbursements of the Extraclassroom Activity Funds of the Horseheads Central School District for the year ended June 30, 2009, on the basis of accounting described in Note 1.

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**HORESHEADS CENTRAL SCHOOL DISTRICT
EXTRACLASSROOM ACTIVITY FUNDS**

**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

| | Fund Balance <u>July 1, 2008</u> | Cash <u>Receipts</u> | Cash <u>Disbursements</u> | Fund Balance <u>June 30, 2009</u> |
|---------------------------|-------------------------------------|-------------------------|------------------------------|--------------------------------------|
| MIDDLE SCHOOL | | | | |
| Library | \$ 249 | \$ 828 | \$ 850 | \$ 227 |
| School Store | 4,637 | 4,282 | 4,156 | 4,763 |
| Student Council | 2,127 | 1,329 | 1,693 | 1,763 |
| Student Funds | <u>13,377</u> | <u>12,869</u> | <u>14,193</u> | <u>12,053</u> |
| Sub-total - Middle School | <u>20,390</u> | <u>19,308</u> | <u>20,892</u> | <u>18,806</u> |
| HIGH SCHOOL | | | | |
| Class of 2008 | 39,289 | 867 | 40,156 | - |
| Class of 2009 | 12,909 | 247,737 | 211,023 | 49,623 |
| Class of 2010 | 8,957 | 45,378 | 40,050 | 14,285 |
| Class of 2011 | 1,514 | 12,573 | 7,590 | 6,497 |
| Class of 2012 | - | 4,818 | 2,973 | 1,845 |
| Academic Challenge | 162 | 4 | 20 | 146 |
| Art Club | 1,282 | 269 | 511 | 1,040 |
| Band Trip | 22,548 | 35,953 | 37,295 | 21,206 |
| Choir | 4,776 | 7,352 | 4,528 | 7,600 |
| Debate Club | 81 | 421 | 312 | 190 |
| Drama Club | 6,481 | 28,052 | 24,335 | 10,198 |
| Hero/FHA | 471 | 10 | - | 481 |
| Interact Club | 1,936 | 809 | 1,071 | 1,674 |
| Interest | 945 | 2,495 | 2,786 | 654 |
| Language Club | 576 | 445 | 117 | 904 |
| Multi-Media Club | 484 | 11 | 401 | 94 |
| National Honor Society | 848 | 8,250 | 7,260 | 1,838 |
| Orchestra | 351 | 8,062 | 7,727 | 686 |
| Sales Tax | 947 | 7,427 | 7,288 | 1,086 |
| Schoolstore | 3,391 | 575 | 838 | 3,128 |
| Science Club | 881 | 519 | 314 | 1,086 |
| Student Activity Fund | 1,289 | - | 1,289 | - |
| Student Council | 2,492 | 2,100 | 2,229 | 2,363 |
| Yearbook - Equestrian | <u>16,976</u> | <u>29,447</u> | <u>26,647</u> | <u>19,776</u> |
| Sub-total - High School | <u>129,586</u> | <u>443,574</u> | <u>426,760</u> | <u>146,400</u> |

(Continued)

**HORESHEADS CENTRAL SCHOOL DISTRICT
EXTRACLASROOM ACTIVITY FUNDS**

**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

(Continued)

| | <u>Fund Balance July 1, 2008</u> | <u>Cash Receipts</u> | <u>Cash Disbursements</u> | <u>Fund Balance June 30, 2009</u> |
|--------------------------------|--------------------------------------|--------------------------|-------------------------------|---------------------------------------|
| ATHLETICS | | | | |
| Athletic Association | 25,591 | 42,811 | 48,723 | 19,679 |
| Horseheads Varsity Association | 17,989 | 59,556 | 76,584 | 961 |
| Sales Tax | 332 | 1,761 | 1,247 | 846 |
| Summer Camps | - | 12,965 | - | 12,965 |
| Student Athletics | 4,469 | 24,717 | 25,891 | 3,295 |
| Sub-total - Athletics | <u>48,381</u> | <u>141,810</u> | <u>152,445</u> | <u>37,746</u> |
| Sub-total - Schools | <u>149,976</u> | <u>462,882</u> | <u>447,652</u> | <u>165,206</u> |
| Total - Schools and Athletics | <u>\$ 198,357</u> | <u>\$ 604,692</u> | <u>\$ 600,097</u> | <u>\$ 202,952</u> |

The accompanying notes are an integral part of this statement.

HORSEHEADS CENTRAL SCHOOL DISTRICT EXTRACLASSROOM ACTIVITY FUNDS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statement of the Extraclassroom Activity Funds of the Horseheads Central School District (the District) is prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. The cash basis of accounting, therefore, does not recognize receivables and payables, inventories, long-lived assets, and accrued income and expenses, which would be recognized under accounting principles generally accepted in the United States. The significant principles and policies used by the District are described below.

Reporting Entity

The transactions of the Extraclassroom Activity Funds are included in the reporting entity of the District. Such transactions are included in the combined financial statements of the District and reported in the Trust and Agency Fund as cash and extraclassroom activity fund balances. Exclusion from the District's financial statements, due to their nature and significance of their relationship with the primary government, would cause the reporting entity's financial statements to be misleading or incomplete.

The Extraclassroom Activity Funds represent funds of the students of the District. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of the District with respect to its financial transactions and the designation of student management. The activities included in this report were formed only for educational and school activity purposes in accordance with District rules and regulations for the conduct, operation, and maintenance of the extraclassroom activities.

Cash and Cash Equivalents

The District's cash and cash equivalents consist of cash on hand, demand deposits, savings accounts and short-term certificates of deposit with original maturities of three months or less from the date of acquisition.

New York State law governs the District's investment policies. Resources must be deposited in FDIC-insured commercial banks or trust companies located within the State. Permissible investments include obligations of the United States Treasury, United States Agencies, repurchase agreements and obligations of New York State or its localities. Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of New York State or its localities.

Demand deposits, savings accounts and short-term certificates of deposit at year-end were entirely covered by FDIC insurance on accounts deposited in trust companies located within the State. At June 30, 2009, cash and cash equivalents are entirely composed of demand deposit accounts, savings accounts, and certificates of deposit. All deposits including certificates of deposit are carried at cost, which approximates market.

Equity Classification - Fund Balance

Unreserved fund balance consists of the portion of fund balance that has not been designated or reserved.

**HORSEHEADS CENTRAL SCHOOL DISTRICT
EXTRACLASSROOM ACTIVITY FUNDS**

**Communication of Matters Related to Internal Control
Over Financial Reporting and Other Matters
November 2009**

Bonadio & Co., LLP
Certified Public Accountants

November 2009

To the Board of Education of the
Horseheads Central School District:

In planning and performing our audit of the financial statements of the Extraclassroom Activity Funds of the Horseheads Central School District (the District) as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A **control deficiency** 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 misstatements on a timely basis.

A **significant deficiency** is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A **material weakness** is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above.

This communication is intended solely for the information and use of the Board of Education, the 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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**HORSEHEADS CENTRAL SCHOOL DISTRICT
EXTRACLASSROOM ACTIVITY FUNDS**

**COMMUNICATION OF MATTERS RELATED TO INTERNAL CONTROL OVER FINANCIAL
REPORTING AND OTHER MATTERS
NOVEMBER 2009**

A. INTERNAL CONTROL - OPERATIONAL RELATED MATTERS

We identified the following control deficiencies that we consider to be significant deficiencies in internal controls.

This report should be read with the understanding that the District was implementing internal control procedural improvements throughout the 2008-2009 school year. Our audit testing and related samples included transactions from the entire school year. As a result, certain of the exceptions noted in the following recommendations may have occurred prior to a procedural improvement change implemented by the District.

We recommend that a formal written District response and implementation plan related to each of these recommendations be prepared and reviewed with the Audit Committee within sixty days of the date of this report.

I. ACCOUNTING POLICIES AND PROCEDURES MANUAL

Observation

Our examination and testing of Extraclassroom Activities disclosed a number of procedural and internal control weaknesses as described further in this report. We believe the primary area for improvement begins with documentation and training related to policies and procedures.

One of the many requirements of accounting and audit reform initiatives in recent years is a renewed focus on the importance of internal controls. A key element of these reform initiatives has been a requirement that accounting procedures and internal controls be formally documented by District Administration and approved by the Board.

We understand that the Central Treasurers are relatively new to their positions. The State Education Department (SED) policy and procedure guide, known as "Finance Pamphlet No. 2" (updated as of 2008), provides instructions to all School Districts with regard to policies, procedures, and financial reporting practices of Extraclassroom Activity Funds. District Board of Education policy indicates that the most recent edition of "Finance Pamphlet No. 2" is to be used as guidance in the administration of Extraclassroom funds. However, the Central Treasurers were not familiar with its contents.

Further, significant portions of the Board of Education policies dealing with Extraclassroom funds have not been revised since 2001.

Recommendation

We recommend that the District formalize all of its Extraclassroom Activity Funds existing accounting policies in a comprehensive, written accounting policies and procedures manual. This manual should be approved by the Audit Committee and distributed to appropriate personnel. We also recommend that a standardized process for reconciling accounts and maintaining related source documentation be established and documented as a component of the policy manual. This manual would help to ensure that the integrity of the District's internal control procedures is maintained regardless of turnover or other extended absences by its staff.

A. INTERNAL CONTROL - OPERATIONAL RELATED MATTERS (Continued)

I. ACCOUNTING POLICIES AND PROCEDURES MANUAL (Continued)

Recommendation (Continued)

We also recommend that formal training be provided on an annual basis to Central Treasurers, Faculty Advisors, Student Treasurers, and School Principals with an emphasis on proper internal control and financial reporting procedures related to Extraclassroom Activities.

II. SEGREGATION OF DUTIES

Observation

During the course of our examination, we noted limited segregation of duties with regard to the Extraclassroom Activity Fund operations as follows:

- Not all clubs have an elected student treasurer.
- Not all student treasurers have maintained student books to reconcile with that of the Central Treasurers, as required by State regulations.
- Not all clubs involved with fundraising events prepared profit and loss statements.
- Not all clubs require signature of Student Treasurers to authorize payments to vendors.
- The Central Treasurers at the High School, Middle School and Athletics prepare the bank reconciliations without independent employee review and approval.

We believe the District should strive for effective segregation of incompatible duties with respect to all Extraclassroom Activities.

Recommendation

We recommend that District Administration review the above items and evaluate whether it is practical to reallocate any of the above responsibilities within the respective main offices of each School location. Minimally, all Extraclassroom bank statements should be given, unopened, to a responsible school staff member who is independent of the Extraclassroom receipts and disbursements functions for their review prior to completion of the bank reconciliation. This review should be evidenced by their initialing and dating the statement.

We also recommend that the same individual review and approve the Extraclassroom bank reconciliation in a timely manner. This review should also be evidenced by their initialing and dating the reconciliation.

Further, all activities should be clearly documented with an elected student treasurer or responsible student involvement.

III. MISSING DOCUMENTATION

Observation

Our testing of controls for the Extraclassroom accounts included sampling from each school's receipts and disbursements. The Athletics account was missing a deposit record in the amount of \$1,560 for Ice Rink receipts. District Officials could not locate the missing document.

NYSED Law Records Retention and Disposition Schedule Ed-I prescribes the records retention requirements for Extraclassroom activities. In general, records associated with Extraclassroom accounts must be retained for six (6) years.

A. INTERNAL CONTROL - OPERATIONAL RELATED MATTERS (Continued)

III. MISSING DOCUMENTATION (Continued)

Recommendation

We recommend that District Administration review the situation described above and give consideration to safeguarding the original records of the activities for each school location.

IV. RECEIPTS PROCEDURES AND DOCUMENTATION

Observation

We reviewed the cash receipts collection procedures and documentation at the High School, Middle School and Athletics. We noted the following areas lacked adequate internal controls and, in some cases, documentation for receipts transactions:

- In fourteen (14) instances, deposit transactions were not supported with evidence of the source of monies received (e.g. ticket sales, sale of logo items, listing from whom dues were collected, etc.).
- Six (6) deposits were not made on a timely basis within three business days.
- For one (1) cash deposit transaction where the deposit amount submitted by the Faculty Advisor was \$200 greater than the actual amount deposited, the District could not provide documentation or evidence to support the variance.
- No budgets of planned expenses or anticipated revenues, tally sheets, or inventory documentation for sales and fees received for fundraising events were available for our review.
- No lists of students or attendees were attached to field trips/outings reports.
- No evidence of sales tax collected and remitted was reviewed even though it may have been necessary and appropriate.

Recommendation

All receipt postings into the accounting records should be documented with copies of checks received and documentation to support the amounts collected. When cash is received, a pre-numbered receipt book should be utilized in duplicate with one receipt issued to the customer and one retained by the Treasurer to attach to the deposit slip. In addition, all deposits should be made into the bank within three business days. To further document accountability for ticket receipts or fee reconciliations, lists of attendees and dollars collected for trips/outings or other means of support should be attached to each bank validated deposit slip and Treasurer's receipt. Implementation of these processes will strengthen controls over deposit receipts.

Since SED states in "Finance Pamphlet #2" that it is their intent that students are afforded a real world learning experience from their Extraclassroom participation, we further recommend that all Extraclassroom activities which plan fundraising events prepare a budget of the planned expenses and anticipated revenues for the fundraising event(s). These budgets, along with the profit and loss statement, provide a useful learning tool for the students. Copies of each should be given to the Central Treasurer for use in analysis of the fundraising event as well as for record retention purposes.

A. INTERNAL CONTROL - OPERATIONAL RELATED MATTERS (Continued)

V. DISBURSEMENTS PROCEDURES AND DOCUMENTATION

Observation

We reviewed disbursement procedures and documentation at the High School, Middle School, and Athletics. We noted the following areas lacked adequate internal controls and, in some cases, documentation to support disbursement transactions:

- Seven (7) transactions did not have sufficient documentation to support the disbursement.
- One (1) transaction lacked at least one (Student Treasurer, Faculty Advisor, Principal) of the required appropriate signatures.
- The Extraclassroom accounts are not fully exempt from New York State sales tax. We identified four (4) taxable transactions where no sales tax was collected and remitted.
- There was one (1) transaction paid using the District's Tax Exemption ID number, which is prohibited under New York State tax laws.

Recommendation

We recommend that all disbursements be supported with original invoices, properly signed payment vouchers, check copies, and student activity minutes attached for significant purchases prior to submitting for payment by the Central Treasurers. In addition, we recommend that appropriate policies be implemented addressing such items as: stipends, mileage, hotels, employee reimbursement, issuance of IRS form 1099-MISC and sales tax procedures. Implementation of these processes will strengthen controls over disbursements.

VI. CLUBS NOT CLEARLY IDENTIFIED WITH STUDENT INVOLVEMENT

Observation

Included in the District's list of Extraclassroom activities are the Horseheads Varsity Association, Student Athletics, Athletic Association and Summer Camps. These accounts do not appear to meet the criteria to be Extraclassroom activities according to the New York State guidelines in the Extraclassroom Activity Pamphlet 2. The accounts are primarily maintained by sports coaches and our sampling of disbursements indicated payments for such items as physical education time at the local ice rink, football blocking sleds and scouting software.

Recommendation

We recommend that the status of these clubs be reviewed in comparison to the SED definitions of Extraclassroom accounts to determine if they meet those criteria. If determined that the activities are operated by individuals other than the students of the District, these clubs should be either closed or moved to a more appropriate accounting designation such as Trust and Agency or Special Purpose funds. We further recommend that new clubs be approved by the District's Board of Education in accordance with the Commissioner of New York State Education Regulations.

A. INTERNAL CONTROL - OPERATIONAL RELATED MATTERS (Continued)

VII. SALES TAX

Observation

The Extraclassroom Fund Activities are not considered to be sales tax-exempt by virtue of their affiliation with the District (see NY State Dept. of Education "Finance Pamphlet 2"). The High School and the Middle School have activities that require the collection and remittance of sales tax to the NYS Department of Taxation and Finance. None of the schools collect sales tax on the taxable items sold. Items for which sales tax must be collected include yearbooks (unless the cost of the yearbooks is borne by the District), and items purchased for resale (i.e., athletic apparel).

Recommendation

We recommend that each school apply for a NYS resale tax certificate so that the activities can legitimately avoid paying sales tax on items that are intended for resale. In addition, each school should collect and remit sales tax on the taxable items sold. As a best practice, deposits that include a sales tax component should be segregated and identified at the time of deposit. The sales tax portion should be deposited in a "Sales Tax" fund. Using this practice, the deposits to a fund are already net of sales tax and the available fund balance is a more reliable indication of the actual funds available. In addition, the use of a sales tax account would provide a form of reconciliation of the amount due for the sales tax payment. The balance in the sales tax account should be equal to the calculated amount due to the State for sales tax.

B. OTHER MATTERS

We consider the following matters to represent control deficiencies as defined in the cover letter to this report.

VIII. CLUB FINANCIAL STATEMENTS

Observation

The Extraclassroom Central Treasurers do not prepare financial statements on a monthly basis for Administration or the Audit Committee's review.

Recommendation

We recommend that the Central Treasurer for each school prepare financial statements for the District Administration on a monthly basis and this information be reviewed with the Audit Committee on a quarterly or semi-annual basis.