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Nov. 18, 2010

**HORSEHEADS CENTRAL SCHOOL DISTRICT
EXTRACLASSROOM ACTIVITY FUNDS**

**Communication of Matters Related to Internal Control
Over Financial Reporting and Other Matters
September 2010**

Bonadio & Co., LLP
Certified Public Accountants

September 2010

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, 2010, 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 *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 *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified deficiencies in internal control that we consider to be significant deficiencies.

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 organization's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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
EXTRACLASROOM ACTIVITY FUNDS**

**COMMUNICATION OF MATTERS RELATED TO INTERNAL CONTROL OVER FINANCIAL
REPORTING AND OTHER MATTERS
SEPTEMBER 2010**

A. INTRODUCTION AND STATUS OF PRIOR YEAR RECOMMENDATIONS

During our financial statement audit of the Extraclassroom Activities Funds of Horseheads Central School District (the District) as of June 30, 2010, we identified a number of internal control recommendations. We are encouraged by the District's management and Board's willingness to accept and address our recommendations each year.

In connection with our fiscal year end 2010 audit, we reviewed the status of our prior year's recommendations with management.

<u>Prior Year Recommendations</u>	<u>Completed</u>	<u>In-Process</u>
Accounting policies and procedures manual	X	
Segregation of duties		X
Receipts procedures and documentation		X
Disbursements procedures and documentation		X
Missing documentation	X	
Clubs not clearly identified with student involvement		X
Sales tax	X	
Club financial statements	X	

This report should be read with the understanding that the District was implementing internal control procedural improvements throughout the 2009-2010 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.

Our suggestions from the prior year that have not been addressed completely are restated below.

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.

The following recommendations represent internal control matters which we identified during the course of our audit which we believe require review, assessment and corrective action by the District.

B. INTERNAL CONTROL - OPERATIONAL RELATED MATTERS

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

1. SEGREGATION OF DUTIES

Observation

Extraclassroom activity funds operate independently of the District, and therefore deposits and disbursements are not subject to the same degree of review as that of the District's governmental fund activities. During the course of our examination, we noted limited segregation of duties with regard to the Extraclassroom activity fund operations, as follows:

- Bank statements are addressed and delivered directly to the Central Treasurers of the High School, Middle School and Athletics Extraclassroom clubs.
- Bank reconciliations are prepared by the Central Treasurers without independent review and approval.
- Not all student treasurers have maintained student books to reconcile with that of the Central Treasurers, as required by State regulations.

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

Recommendation

We recommend that the District's 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. At a minimum, 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 reconciliations in a timely manner, including a review of outstanding items. This review should also be evidenced by their initialing and dating the reconciliation.

Further, all Extraclassroom activities should be clearly documented by an elected student treasurer. These student books should be maintained and reconciled to the Central Treasurer's records, on a periodic basis.

B. INTERNAL CONTROL - OPERATIONAL RELATED MATTERS (Continued)

2. RECEIPTS PROCEDURES AND DOCUMENTATION

Observation

We reviewed the cash receipt collection procedures and documentation of the High School, Middle School and Athletics Extraclassroom clubs. Our audit procedures included selecting a sample of fifteen cash receipts to review, in which we noted the following:

- Not all clubs involved with fundraising events prepared profit and loss statements.
- In eight (8) instances, we were unable, based on the supporting documentation, to determine if the collections were presented for deposit with the Central Treasurer in a timely manner or if the collections were held longer than best practice would suggest (i.e. within 3 – 5 business days).
- Six (6) deposits were not supported with sufficient documentation (e.g. range of tickets sold) to support that the deposits were presented intact as collected.
- For one (1) deposit the reported amount to be deposited and the bank tellers' receipt were not in agreement.
- 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.

Recommendation

We recommend that all receipt postings into the accounting records be documented as to the amount collected with copies of checks received, receipts for cash received and, where appropriate, a reconciliation of items sold or other indication that all funds collected are being presented for deposit. We further recommend that all collections be deposited with the Central Treasurer within three business days. Funds not presented for deposit can easily be lost, stolen or forgotten.

Clubs hosting fundraising events should prepare profit and loss statements for each event, as well as a budget of planned expenses and anticipated revenues. These statements should be reconciled to the receipts and expenditures related to the event. For events where tickets are sold, the beginning and ending ticket numbers of the range(s) of tickets sold should be reconciled to the cash receipts. For events where items are sold, such as candy sales, cash receipts should be reconciled to the number of items sold.

A listing of attendees should accompany field trip/outing reports along with the related cash receipts.

B. INTERNAL CONTROL - OPERATIONAL RELATED MATTERS (Continued)

3. DISBURSEMENTS PROCEDURES AND DOCUMENTATION

Observation

We reviewed disbursement procedures and documentation of the High School, Middle School, and Athletics Extraclassroom clubs. Our audit procedures included selecting a sample of fifteen cash disbursements to review, in which we noted the following:

- Six (6) transactions did not have sufficient documentation to support the disbursement.
- Two (2) transactions lacked the required appropriate signatures.
- One (1) disbursement was made as a donation to a family; however there was no support in the form of a copy of meeting minutes or similar documentation that the membership of the club agreed with the transaction.

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. Donations or other disbursements not initiated by an invoice should be supported with a copy of meeting minutes of the activity.

4. CLUBS NOT CLEARLY IDENTIFIED WITH STUDENT INVOLVEMENT

Observation

We noted during the testing of transactions that the "Student Funds" account at the Middle School was primarily used by the school for cash donations to charitable causes such as Haiti relief. The account is administered exclusively by faculty and staff of the Middle School. Since there is neither direct student involvement nor benefit, this account can not be considered a valid Extraclassroom account.

Recommendation

We recommend that the "Student Funds" account at the Middle School be reclassified as an account within the Trust and Agency funds of the District. 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.

B. INTERNAL CONTROL - OPERATIONAL RELATED MATTERS (Continued)

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

5. OPENING BALANCE VARIANCE

Observation

We noted in our testing of the trial balances for the schools that there was an aggregate opening balance variance of \$500 for the High School. Since the variance amount is not considered to be significant no further testing was required.

Recommendation

We recommend that Central Treasurers verify that the beginning balances agree to prior period audit reports. Any variances noted should be identified and corrected.

**HORSEHEADS CENTRAL SCHOOL DISTRICT
EXTRACLASSROOM ACTIVITY FUNDS**

**Financial Statements
as of June 30, 2010
Together with
Independent Auditors' Report**

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

September 30, 2010

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

We have audited the statement of cash and fund balances resulting from cash transactions of the Extraclassroom Activity Funds of the Horseheads Central School District (the District) for the year ended June 30, 2010 and the related statement of cash receipts and disbursements for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express our opinion on these financial statements based on our audit.

Except as discussed 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. 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, the financial statements referred to above are prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States.

In our opinion, except for the effect of any adjustments that might have been determined to be necessary had we been able to perform adequate auditing procedures in regards to the cash receipts referred to in the third paragraph, the financial statements referred to above presents fairly, in all material respects, the cash and fund balances resulting from cash transactions and the cash receipts and disbursements of the Extraclassroom Activity Funds of the Horseheads Central School District as of and for the year ended June 30, 2010, on the basis of accounting described in Note 1.

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**HORESHEADS CENTRAL SCHOOL DISTRICT
EXTRACLASSROOM ACTIVITY FUNDS**

**STATEMENT OF CASH AND FUND BALANCES RESULTING FROM
CASH TRANSACTIONS
FOR THE YEAR ENDED JUNE 30, 2010**

ASSETS

Cash	\$ 196,221
Total assets	<u>\$ 196,221</u>

FUND BALANCES

Fund balances	\$ 196,221
Total fund balances	<u>\$ 196,221</u>

The accompanying notes are an integral part of these statements.

**HORESHEADS CENTRAL SCHOOL DISTRICT
EXTRACLASSROOM ACTIVITY FUNDS**

**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

	Fund Balance <u>July 1, 2009</u>	Cash <u>Receipts</u>	Cash <u>Disbursements</u>	Fund Balance <u>June 30, 2010</u>
MIDDLE SCHOOL				
Library	\$ 227	\$ 562	\$ 469	\$ 320
School Store	4,763	4,518	2,379	6,902
Student Council	1,763	2,616	2,027	2,352
Student Funds	<u>12,053</u>	<u>13,906</u>	<u>15,290</u>	<u>10,669</u>
Sub-total - Middle School	<u>18,806</u>	<u>21,602</u>	<u>20,165</u>	<u>20,243</u>
HIGH SCHOOL				
Class of 2009	49,623	224	49,847	-
Class of 2010	14,285	130,367	142,785	1,867
Class of 2011	6,497	57,914	44,313	20,098
Class of 2012	1,845	24,103	8,671	17,277
Class of 2013	-	18,768	4,945	13,823
Academic Challenge	146	-	-	146
Art Club	1,040	99	1,000	139
Band Trip	21,206	56,965	41,953	36,218
Choir	7,600	33,785	35,060	6,325
Debate Club	190	-	-	190
Drama Club	10,198	20,715	24,910	6,003
Hero/FHA	481	-	-	481
Interact Club	1,674	2,459	2,953	1,180
Interest	654	138	653	139
Language Club	904	4	875	33
Multi-Media Club	94	-	94	-
National Honor Society	1,838	5,598	6,030	1,406
Orchestra	686	1,577	1,234	1,029
Sales Tax	1,086	6,768	6,195	1,659
Schoolstore	3,128	14	-	3,142
Science Club	1,086	205	270	1,021
Student Council	2,363	2,852	3,416	1,799
Yearbook - Equestrian	<u>19,776</u>	<u>18,032</u>	<u>14,382</u>	<u>23,426</u>
Sub-total - High School	<u>146,400</u>	<u>380,587</u>	<u>389,586</u>	<u>137,401</u>

(Continued)

**HORESHEADS CENTRAL SCHOOL DISTRICT
EXTRACLASSROOM ACTIVITY FUNDS**

**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(Continued)**

	<u>Fund Balance July 1, 2009</u>	<u>Cash Receipts</u>	<u>Cash Disbursements</u>	<u>Fund Balance June 30, 2010</u>
ATHLETICS				
Athletic Association	19,679	65,230	62,153	22,756
Horseheads Varsity Association	961	44,334	42,004	3,291
Sales Tax	846	2,388	2,710	524
Summer Camps	12,965	53,670	54,640	11,995
Student Athletics	<u>3,295</u>	<u>29,282</u>	<u>32,566</u>	<u>11</u>
Sub-total - Athletics	<u>37,746</u>	<u>194,904</u>	<u>194,073</u>	<u>38,577</u>
Sub-total - Schools	<u>165,206</u>	<u>402,189</u>	<u>409,751</u>	<u>157,644</u>
Total - Schools and Athletics	<u>\$ 202,952</u>	<u>\$ 597,093</u>	<u>\$ 603,824</u>	<u>\$ 196,221</u>

The accompanying notes are an integral part of these statements.

**HORSEHEADS CENTRAL SCHOOL DISTRICT
EXTRACLASROOM ACTIVITY FUNDS**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Extraclassroom Activity Funds of the Horseheads Central School District (the District) is prepared on the cash basis, 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

The District's cash consists of cash on hand and demand deposit accounts. At times, the District may use 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, 2010, 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 fair market value.

Equity Classification - Fund Balance

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