

**HORSEHEADS CENTRAL SCHOOL DISTRICT**

**Single Audit Reports  
for the Year Ended  
June 30, 2010**

**Bonadio & Co., LLP**  
Certified Public Accountants

# HORSEHEADS CENTRAL SCHOOL DISTRICT

## SINGLE AUDIT REPORTS FOR THE YEAR ENDED JUNE 30, 2010

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

September 30, 2010

To the Board of Education of  
Horseheads Central School District:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Horseheads Central School District (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

*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. We consider the deficiency described as 2010-1 in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

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(Continued)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

(Continued)

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below:

Unreserved fund balance exceeded 4% of the subsequent year's budget, therefore, not complying with Section 318 of the New York State Real Property Tax Law.

We also noted certain other matters that we have reported to the management of the District in a separate letter dated September 2010.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of Board of Education, Audit Committee, Administration, federal awarding agencies, pass-through entities and others within the School District, and is not intended to be and should not be used by anyone other than these specified parties.

*Bonadio & Co., LLP*

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

March 9, 2011 (except for the Schedule of Expenditures of Federal Awards as to which the date is September 30, 2010)

To the Board of Education of  
Horseheads Central School District:

**Compliance**

We have audited Horseheads Central School District's (the District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

(Continued)

**Internal Control Over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on the responses.

**Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the District as of and for the year ended June 30, 2010, and have issued our report thereon dated September 30, 2010. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, Audit Committee, Administration and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Bonadio & Co., LLP*

# HORSEHEADS CENTRAL SCHOOL DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass Through Grantor's Number	Expenditures
U.S. Department of Agriculture:			
Pass-Through New York State Dept. of Education			
School Breakfast Program	10.553	^	\$ 118,182
National School Lunch Program	10.555	^	510,485
Pass-Through New York State Office of General Services (Division of Donated Foods) -			
Surplus Food Distribution			<u>137,530</u>
Total U.S. Department of Agriculture			<u>766,197</u>
U.S. Department of Education:			
Pass-Through New York State Dept. of Education			
Title I Grants to Local Education Agencies	84.010	0021-09-0415	119,563
Title I Grants to Local Education Agencies	84.010	0021-10-0415	509,230
Title I Grants to Local Education Agencies	84.010	0011-10-2080	9,145
Title I Grants to Local Education Agencies, ARRA	84.389	5021-10-0415	<u>162,201</u>
			<u>800,139</u>
Safe and Drug-Free Schools	84.186	0180-10-0415	<u>8,772</u>
Special Education - Grants to States (IDEA, Part B)	84.027	* 0032-09-0121	18,754
Special Education - Grants to States (IDEA, Part B)	84.027	* 0032-10-0121	943,948
Special Education - Grants to States (IDEA, Part B), ARRA	84.391	* 5032-10-0121	<u>395,136</u>
			<u>1,357,838</u>
Special Education - Preschool Grants (IDEA Preschool)	84.173	* 0033-09-0121	24,271
Special Education - Preschool Grants (IDEA Preschool)	84.173	* 0033-10-0121	24,393
Special Education - Preschool Grants (IDEA Preschool), ARRA	84.392	* 5033-10-0121	<u>23,670</u>
			<u>72,334</u>
Improving Teacher Quality State Grant	84.367	0147-09-0415	20,508
Improving Teacher Quality State Grant	84.367	0147-10-0415	<u>129,594</u>
			<u>150,102</u>
Enhancing Education Through Technology Program	84.318	0292-09-0415	125
Enhancing Education Through Technology Program	84.318	0292-10-0415	<u>412</u>
			<u>537</u>
State Fiscal Stabilization Fund - Education State Grants, ARRA	84.394	5000-10-0415	<u>3,194,484</u>
Total U.S. Department of Education			<u>5,584,206</u>
Total expenditures of federal awards			<u>\$ 6,350,403</u>

- ^ Child nutrition cluster  
\* Special education cluster

The accompanying notes are an integral part of this schedule.

# HORSEHEADS CENTRAL SCHOOL DISTRICT

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2010

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### 1. BASIS OF PRESENTATION

The preceding Schedule of Expenditures of Federal Awards presents the activity of federal award programs administered by the Horseheads Central School District (the District), which is described in Note 1 to the District's basic financial statements. Federal awards included in the schedule may be received directly from federal agencies, as well as passed through other government agencies. The information presented in accordance with OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Accordingly, some amounts in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

### 2. SUBRECIPIENTS

No amounts were provided to subrecipients.

### 3. NON-MONETARY FEDERAL PROGRAM

The District is the recipient of a federal financial award program that does not result in receipts of disbursements termed a "non-monetary" program. During the year ended June 30, 2010, the District received food commodities, the fair market value of which is presented in the accompanying Schedule of Expenditures of Federal Awards as Food Distribution and was considered in the District's single audit.

### 4. OTHER DISCLOSURES

No insurance is carried specifically to cover equipment purchased with federal awards. Any equipment purchased with federal funds has only a nominal value and is covered by the District's insurance policies.

There were no loans or loan guarantees outstanding at year-end.

# HORSEHEADS CENTRAL SCHOOL DISTRICT

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2010

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### A. SUMMARY OF AUDITORS' RESULTS

1. The independent auditors' report expresses an unqualified opinion on the basic financial statements of Horseheads Central School District (the District).
2. One material weakness relating to the audit of the basic financial statements is reported in the Report on Internal Control Over Basic Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.
3. One instance of noncompliance material to the basic financial statements of the District was disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award program are reported in the Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The report on compliance for the major federal award programs for the District expresses an unqualified opinion.
6. There are no audit findings relative to the major federal award programs for the District.
7. The programs/clusters tested as a major programs were as follows:
  - Special Education Cluster:
    - CFDA #84.027 Special Education - Grants to States (IDEA, Part B)
    - CFDA #84.173 Special Education - Preschool Grants (IDEA Preschool)
    - CFDA #84.391 Special Education - Grants to States (IDEA, Part B), ARRA
    - CFDA #84.392 Special Education - Preschool Grants (IDEA Preschool), ARRA
  - Child Nutrition Cluster:
    - CFDA #10.553 - School Breakfast Program
    - CFDA #10.555 - National School Lunch Program
  - CFDA #84.010 - Title I Grants to Local Education Agencies
  - CFDA #84.389 - Title I Grants to Local Educational Agencies, ARRA
  - CFDA #84.394 - State Fiscal Stabilization Fund - Education State Grants, ARRA
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The District did not qualify as a low-risk auditee.

## B. FINDINGS - FINANCIAL STATEMENT AUDIT

### Material Weakness

#### 2010-1 Finding

**Criteria:** The District's School Business Administrator should be able to accurately project and report the District's financial results.

**Condition:** During our audit process, we identified the following:

- 1) A significant projection error was made in the spring of 2010 by the School Business Administrator in projecting the General Fund surplus (deficit) for the year ending June 30, 2010. During the annual budget process, the General Fund was projected to have a deficit of (\$2,100,000). However, the audited General Fund surplus for the year ended June 30, 2010 was approximately \$564,000, a variance of \$2,664,000 between the projected deficit and the actual surplus reported for the General Fund.
- 2) During our year-end audit process, we identified a number of material audit adjustments which significantly reduced the District's pre-audit June 30, 2010 General Fund surplus from \$1,456,000 to the audited surplus of approximately \$564,000.

**Cause:** Each of the matters described above provide evidence of the inability for the School Business Administrator to accurately project and report the District's financial results.

**Effect:** Accordingly, we believe these matters represent a material weakness in the District's internal controls over financial reporting.

**Recommendation:** We believe that the District Board and Administration should seriously consider implementing the necessary personnel and procedural changes to reduce the risk of recurring errors related to District budget projections and financial reporting. Specifically, we believe that consideration should be given to the following recommendations:

- 1) Based on the facts described above, the School Business Administrator has not demonstrated the ability to accurately project year-end financial results or close the District's financial records accurately. Accordingly, we believe that additional people with the necessary resources, expertise and experience in school district finances and accounting should be identified to take primary responsibility for these very important areas.
- 2) During the annual budget process and the development of projected financial results for the District General Fund, the Board should consider whether a third party independent review of the projected financial results and budget assumptions would be appropriate to mitigate the risk of similar errors occurring in the future.
- 3) We understand that the Greater Southern Tier (GST) BOCES has developed resources to provide additional expertise and support to member districts in the area of budgeting and financial reporting. The District Board and Administration may want to consider contracting with the GST BOCES for additional people resources in this area.

The credibility of the District Board and administration is heavily dependent upon the District's ability to estimate, calculate and report accurate financial information and budget estimates. The errors which occurred in fiscal year 2010 in the budgeting and financial reporting areas clearly demonstrate that changes must be implemented to reduce or eliminate the risk of errors, omissions and inaccuracies in the District's financial reporting.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)**

**Material Weakness (Continued)**

**2010-1 Finding (Continued)**

**Management Comments:** We agree with the above fully and have implemented new accounting procedures to ensure the District's financial results are accurately projected and reported.

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT**

None

**D. SUMMARY OF PRIOR YEAR FINDINGS**

**2009-1 Finding**

**PRIOR PERIOD ADJUSTMENTS**

During the year ended June 30, 2009, District Administration and Board determined that certain financial reporting errors were made for the year ended June 30, 2008 and previous years. In accordance with Generally Accepted Accounting Principles, the correction of financial reporting errors is reflected as an adjustment to the opening fund balance for the year in which the error is identified and corrected.

Accordingly, the accompanying financial statements reflect the following prior period adjustments reported as adjustments to the previously reported fund balances as of June 30, 2008:

<u>Description of Restatement</u>	<u>Effect on Governmental Fund Balance</u>	<u>Effect on District-wide Net Assets</u>
To restate compensated absences liability in accordance with GASB 16, Accounting for Compensated Absences.	\$ 3,128,000	\$ 2,519,838
To reverse current liability for other postemployment benefits not recognized in accordance with Generally Accepted Accounting Principles.	3,813,594	3,813,594
To reverse long term liability for other postemployment benefits not recognized in accordance with Generally Accepted Accounting Principles.	-	9,644,501
	<u>\$ 6,941,594</u>	<u>\$ 15,977,933</u>

The prior period adjustments were made to ensure compliance with current accounting standards.

**Recommendation:** We recommend the District implement new accounting procedures to stay in compliance with current accounting standards.

**D. SUMMARY OF PRIOR YEAR FINDINGS (Continued)**

**2009-1 Finding (Continued)**

**PRIOR PERIOD ADJUSTMENTS (Continued)**

**Management Comments:** We agree with the above fully and have implemented new accounting procedures to ensure compliance with current accounting standards.

**Current Status:** The District has implemented this recommendation in 2010.

**2009-2 Finding**

**Criteria:** A child's eligibility for free or reduced price meals under the School Lunch program may be established by the submission of an annual application or statement which furnishes such information as family income and family size. The District determines eligibility by comparing the data reported by the child's household to published income eligibility guidelines.

**Condition:** In our test of school lunch eligibility of 40 students selected, we noted four exceptions. One student who received free lunch was not eligible for free or reduced lunch and no application for this student exists. For two students the eligibility was properly coded on the application but the service provided did not agree to the level determined. One student was coded as and received reduced lunch but was eligible for free lunch.

**Cause:** For applications received during the school year, there is no verification performed by the School Lunch Director. In addition, the Director reviews the applications and information coded on the application, data entry is not vouched to the determination prior to finalizing the student's eligibility in the computer system.

**Effect:** Errors in coding may result in some students receiving more or less benefit than allowed.

**Recommendation:** We recommend that coded applications are verified and the information entered in the computer system is vouched to the coding determination before final determination is processed in the system.

**Management Comments:** District personnel responsible for eligibility determinations in this area will implement the necessary procedure to verify the accuracy of data input. The ultimate objective will be to eliminate errors of this nature on a prospective basis.

**Current Status:** The District has implemented this recommendation in 2010.

**2009-3 Finding**

**Criteria:** Payroll of individuals assigned to federally funded programs is required to be certified per OMB Circular A-87.

**Condition:** Payroll for Federal awards is required to be certified semi-annually for individuals assigned 100% of their time to federal award programs and monthly for those who are assigned less than 100%.

**Cause:** Payroll is not certified for individuals assigned to federal award programs.

**D. SUMMARY OF PRIOR YEAR FINDINGS (Continued)**

**2009-3 Finding (Continued)**

**Effect:** Failure to meet requirements of Federal award programs may result in loss of Federal funding.

**Recommendation:** We recommend that the District implement a process to certify payroll per OMB Circular A-87 requirements.

**Management Comments:** The District agrees with recommendation and will implement the necessary procedures to ensure payroll charged to federal programs is certified in accordance with Circular A-87.

**Current Status:** The District has implemented this recommendation in 2010.