

BLIND BROOK - RYE UNION FREE SCHOOL DISTRICT, NEW YORK

Independent Auditors' Report on Communication of  
Internal Control Matters Identified in the Audit

June 30, 2009



**Independent Auditors' Report on Communication of Internal Control Matters  
Identified in the Audit**

The Board of Education  
Blind Brook – Rye Union Free School District  
390 North Ridge Street  
Rye Brook, New York 10573

In planning and performing our audit of the basic financial statements of the Blind Brook - Rye Union Free School District, New York as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the School District's internal control over financial reporting 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 School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

We have included in this letter a summary of communications with the audit committee of the Board of Education as required by generally accepted auditing standards. We are also required to communicate any control deficiencies we identified during the audit and determined to be significant deficiencies or material weaknesses. This communication is a requirement of the Statement on Auditing Standards ("SAS") 112 "Communicating Internal Control Related Matters Identified in an Audit".

Our consideration of internal control was for the limited purpose of conducting your School District's audit and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined in SAS 112 as follows:

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.

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.

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. **We did not identify any deficiencies in internal control that we consider to be material weaknesses.**

However, as indicated in the attached Addendum A, we identified certain deficiencies in internal control that we consider to be control deficiencies as well as other comments and recommendations identified in Addendum B that are opportunities for strengthening internal controls and operating efficiency.

***It is important to note that control deficiencies are not necessarily issues management and the Board of Education will choose to address, however, control deficiencies may represent potential risks. Our responsibility as your auditor is to ensure that management and the Board of Education are aware of these deficiencies or weaknesses so that you can make informed business decisions on how best to respond to these risks.***

This report, summary of communications and addendums are intended for the information and use of management and the Board of Education. However, this report is a matter of public record and its distribution is not limited. We will be pleased to discuss these comments in further detail at your convenience, or to assist you in implementing the recommendations.

*O'Connor Davies Munns & Dobbins, LLP*

**O'Connor Davies Munns & Dobbins, LLP**  
**Bennett Kielson Storch DeSantis Division**  
August 24, 2009

Blind Brook - Rye Union Free School District, New York

Summary of Communications

- Auditors' Responsibility Under Auditing Standards Generally Accepted in the United States of America
  - Unqualified opinion on financial statements
  - No change in scope of the audit
  - No material errors, frauds, or illegal acts identified
  - No immaterial frauds or illegal acts identified
  - No instances/suspicion or allegations of fraud were noted during conduct of audit
- Internal Accounting Controls
  - Reviewed to extent necessary to render our opinion on the financial statements
  - No material weaknesses noted
- Significant Accounting Policies
  - Accounting policies appears appropriate
  - Significant accounting policies included in Note 1 to the financial statements
  - No changes in accounting policies during the year
- Management's Judgments and Accounting Estimates
  - Estimates used deemed adequate
- Audit Adjustments
  - No significant unrecorded adjustments
- Other Information in Documents Containing Audited Financial Statements
  - Management's Discussion and Analysis appears reasonable
- Disagreements with Management
  - None
- Unresolved Difficulties Encountered in Performing the Audit
  - None

Blind Brook - Rye Union Free School District, New York

Summary of Communications  
(Concluded)

- Consultation by Management with Other Accountants
  - None of which we were made aware
- Management Consulting Services
  - None
- Independence
  - Bennett Kielson Storch DeSantis, The Government Services Division of O'Connor Davies Munns & Dobbins, LLP is independent in all respects
- Irregularities or Illegal Acts
  - Nothing to report

Addendum A

- **Special Purpose Fund**

The Special Purpose Fund has been established to record the activity resulting from the various bequests for which the School District is the recipient. The School District tracks the activity for each bequest in separate revenue/expenditure accounts. During our audit, we noted that several bequests, some of which date back several years, have either no activity or just interest earnings.

***Recommendation***

We suggest that the purpose of these trusts be reviewed and that the funds be used in future fiscal years for the purposes intended. For bequests that date back several years for which the original intent is not documented, the Business Office should request the Board of Education to approve a resolution to close out these funds and transfer the monies to the General Fund to be used for any lawful purpose.

- **Agency Fund**

Fiduciary funds are used to account for assets held by the School District in an agency capacity on behalf of others. The Agency Fund is primarily utilized to account for payroll tax withholdings and other deposits that are payable to other jurisdictions or individuals. Our review of the Agency Fund indicated that, for several of these accounts, there was no activity during the 2008-2009 year.

***Recommendation***

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

- **Extraclassroom Activities**

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 that several clubs that had no financial activity during the current year.

***Recommendation***

We suggest that a review of these activities be made to assess their status. If the clubs have ceased operations, the balances should be transferred to another club.

Addendum B

- **Future Application of Accounting Standard – Statement of the Governmental Accounting Standards Board (“GASB”) – Fund Balance Reporting and Governmental Fund Type Definitions (GASB Statement No. 54)**

In February 2009, the Governmental Accounting Standards Board (“GASB”) issued Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”. This Statement is intended to improve the usefulness of information provided to users of governmental financial statements about fund balance by 1) providing clearer, more structured fund balance classifications and 2) by clarifying the definitions of existing governmental fund types.

It is said that fund balance is among the most widely and frequently used piece of information provided in local government financial statements. GASB Statement No. 54 was developed to address the diversity and lack of consistency that had developed in the reporting of this vital information. To reduce this confusion, the new standard establishes a hierarchy of fund balance classifications based primarily on the extent to which a government is bound to observe spending constraints imposed upon how resources reported in governmental funds may be used.

GASB Statement No. 54 distinguishes fund balance between amounts that are considered nonspendable (such as fund balance associated with inventories) and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Accordingly, fund balance amounts will be reported in the following classifications:

- Restricted – amounts stipulated by constitution, external resource providers or through enabling legislation.
- Committed – amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority.
- Assigned – amounts that are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- Unassigned – amounts that are not constrained at all in the government’s General Fund and includes all spendable amounts not contained in other classifications.

GASB Statement No. 54 also clarifies the definitions of individual governmental fund types. It provides an interpretation of certain terms within the definition of special revenue fund types, while further clarifying the debt service and capital projects fund type definitions. GASB Statement No. 54 is effective for the School District’s fiscal year ending June 30, 2011 with earlier implementation encouraged.

Addendum B

- **Written Investment Policy**

The current economic crisis has altered the relationship between banks and the various municipal entities that they service. In addition to sweeping changes in Federal Deposit Insurance Corporation ("FDIC") coverage that affect all depositors, banks have also begun to expand the options permitted under Section 10 of the New York State General Municipal Law in regards to collateralizing a municipality's or school district's deposits that exceed FDIC limits. For instance, one of the options that has been most prevalent is the acceptance of a letter of credit issued by the Federal Home Loan Bank.

Section 39 of the New York State General Municipal Law requires municipalities and school districts, under their written investment policies, to include in the policy "procedures and provisions to secure in a satisfactory manner the local municipality's financial interest in investments". Accordingly, many entities have included in their written investment policy a listing of the collateral which will be accepted by them as collateral to secure deposits in excess of FDIC coverage.

We suggest that a review of the written investment policy, collateral agreements and FDIC coverage regulations be performed to ensure that all deposits are fully covered and that the list of acceptable collateral instruments to secure deposits in excess of FDIC limits in the written investment policy is consistent with the collateral agreements with the banks.