
**Blind Brook–Rye Union Free School District
School Business Office
390 North Ridge Street
Rye Brook, NY 10573**

TO: Mr. Stark

FROM: Jonathan Ross

RE: **Corrective Action Plan/Response to External Auditors' Management Letter:
Audit for the Year Ending June 30, 2009**

DATE: August 31, 2009

Enclosed herewith for your review is the management letter dated 8/24/09 that corresponds to the 2009 Financial Statement/Auditors' Report, submitted by the District's auditing firm, O'Connor Davies Munn Dobbins LLP - Bennett Kielson Storch DeSantis Division (ODMD-BKSD). I have carefully considered the recommendations set forth in the letter and prepared this response memo.

The auditors did not find any deficiencies with our general fund, capital fund, school lunch fund, permanent fund, and debt service fund operations for the period reported on. The ODMD-BKSD management letter recommends only three corrective actions relative to inactive accounts in three funds. Hence, there are recommendations for the following three funds: special purpose, agency, and extra-classroom activity. The following outline delineates our planned corrective actions.

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.

Response

There are four accounts that where there was no activity during the 2008-2009 year – TA920B (Other), T920E (Frاند), TA920G (Sarkozi), and TA920K (Ponterio). I recommend that TA920B be written off to the General Fund as the source information for establishing this endowment is unknown and has been for eight years. The other three accounts should remain as they are as these accounts are reserves or endowments and any activity is made against the interest earned by the actual account.

- ***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 2007-2008 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.

Response

The District Treasurer will examine the status of the inactive accounts and, if applicable, either ensure current year activity within the account or close them out and transfer the monies into the General Fund (with approval of the Board). These accounts have been identified by BKSD as TA860B (technology), TA860H (calculators), TA950.16 (soccer), and TA950.21 (RSS-playground). My initial sense is that each account will have activity in 2009-2010 thus making any action moot.

• **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 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 into another club.

Response

There were six accounts with no activity during the 2008-2009 year. The Student Activity Treasurer will examine each of the accounts and make a recommendation as to whether or not the activities have ceased operations and balances should be transferred to the HS Student Senate account.

Addendum B

GASB 54 – Fund Balance Reporting and Governmental Fund Type Definitions

As indicated in the management letter, the Blind Brook School District must implement the requirements of GASB Statement No. 54 by no later than 6/30/11. The intent of this Statement as it applies to school districts is to facilitate an easier understanding of information gleaned from financial statements related to fund balance. On or before 6/30/11 it is our intent to report fund balances in accordance with GASB Statement No. 54.

In a memo a prepared for you dated 7/31/09 the following fund balance information was provided.

The District’s total unreserved and undesignated fund balance is \$1,549,085 or 3.97% of the 2009-2010 budget (\$38,928,492). Hence, our total fund balance scenario within the general fund is as follows for the year ending 6/30/09:

Reserved for Encumbrances:	\$170,849
Reserved for Pre-paid Expenditures:	\$253,556
Reserve for Employee Accrued Benefits:	\$241,055
Reserve for Tax Certiorari:	\$174,463
Proposed Reserve for Retirement System Contributions	<u>\$200,000</u>
Reserved Balance:	\$1,039,923
Designated for Subsequent Year’s Expenditures:	\$1,150,000
Undesignated/Unreserved Balance:	<u>\$1,549,085</u>
Total Fund Balance (at end of year):	\$3,739,008

Simply, \$1,039,923 is reserved for specific purposes, \$1,150,000 is designated for 2009-2010 expenditures, and \$1,549,085 is undesignated and unreserved thus available to the Board for non-constrained spending. While I believe a lay person can easily understand this fund balance information as currently formatted and reported, GASB Statement No. 54 will likely provide more information in a way that hopefully makes this important element of a district’s financial statement even clearer to those that care to review and analyze it.

Written Investment Policy

As indicated in the management letter, the Blind Brook School District should review its investment policy - specifically those provisions that relate to collateral that is acceptable as collateral to secure deposits in non-FDIC accounts and those accounts at FDIC-institutions where deposits exceed the FDIC coverage threshold. Listed on the next page is the Blind Brook Board Policy that relates to this matter.

From Policy #5220:

The authority to deposit and invest funds is delegated to the School Business Official. These functions shall be performed in accordance with the applicable sections of the General Municipal Law Section 39 and the Local Finance Law of the State of New York.

The School District Treasurer may invest funds in the following eligible investments:

- a) *Obligations of the State of New York.*
- b) *Obligations of the United States Government or any obligations for which principal and interest are fully guaranteed by the United States Government.*

Time Deposit Accounts placed in a commercial bank authorized to do business in the State of New York, providing the account is collateralized as required by law. [Banking Law Section 237(2) prohibits a savings bank from accepting a deposit from a local government. This also applies to savings and loan associations.]

- c) *Transaction accounts (demand deposits) both interest bearing and non-interest bearing that do not require notice of withdrawal placed in a commercial bank authorized to do business in the State of New York, providing the account is collateralized as required by law.*
- d) *Certificates of Deposits placed in a commercial bank authorized to do business in the State of New York providing the Certificates are collateralized as required by law.*
- e) *Securities purchased pursuant to a Repurchase Agreement whereby one party purchases securities from a second party and the second party agrees to repurchase those same securities on a specific future date at an agreed rate of return (the interest rate).*

The District has investments with three institutions: New York Liquid Assets Funds (NYLAF), JPMorgan Chase Bank (JPMC), and M.B.I.A.-NYCLASS. Each month the District Treasurer receives collateral reports from each institution which the Treasurer reviews to ascertain compliance with established collateral agreements. Annually, the Board approves each institution as an official depository of funds at its Reorganization Meeting.

The New York Liquid Asset Fund (NYLAF) is a customized cash management program that was created exclusively for, and controlled by, New York School Districts, Municipal Corporations, BOCES and Fire Districts. Safety, liquidity, and then yield are NYLAF's three guiding principles, and in that sequence. NYLAF is rated AAAM by Standard and Poor's, the highest credit rating that they extend, as funds are only invested in securities that are permissible under the General Municipal Law Section 39. The District has two money market accounts currently in place with NYLAF. As cashflow permits investments in 90- and 120-day certificates of deposit are initiated to secure the best return possible. More information about NYLAF can be obtained at the link below.

<http://www.nylaf.com/vertical/Sites/%7B0169A75C-2F7B-4A03-8CC7-F46F662F2FD1%7D/uploads/%7BBC456883-005E-4962-B7EA-F7BFD7B3D91E%7D.PDF>

JPMorgan Chase & Co. is one of the world's leading financial services firms with assets of \$2.1 trillion and operations in more than 60 countries. The district has all of its checking and several savings accounts with JPMC and conducts nearly all of its business from them. The largest percentage of District funds that must be liquid are deposited here. More information about JPMC can be obtained at the link below.

http://www.jpmorganchase.com/cm/Satellite?c=Page&cid=1159304834085&pagename=jpmc/Page/New_JPMC_Home_page

M.B.I.A.-NYCLASS, also known as New York Cooperative Liquid Assets Securities System (NYCLASS), is a short-term, highly liquid investment program, designed specifically for public-sector funds, that provides the opportunity to invest funds on a cooperative basis in short-term investments which are carefully selected to yield favorable returns while providing maximum safety and liquidity. The NYCLASS Board invests cooperative funds only in securities that are legal for public funds investment in New York. The Board limits these investments to Repurchase Agreements collateralized 102% with U.S. Treasury securities and agency securities backed by the full faith and credit of the U.S. government, U.S. Treasury bills and notes, collateralized bank deposits, and other U.S. government guaranteed obligations, such as Small Business Administration pools. As of July 28, 2008, 100% of the Cooperative's assets were invested in 'AAA' quality U.S. Treasury securities, Repurchase Agreements, and a Collateralized Bank Deposit. Because it pays the least interest on deposit accounts the District currently has minimal funds invested here. More information can be obtained at the link below.

<https://cc.mbiaweb.com/ccon/html/NYCLASSINFO811Format.pdf>

In summary, I believe the financial statement and audit report prepared by ODMD-BKSD for the year ending 6/30/09 represents that the District is financially stable and strong. That it has effective internal controls in place in its business office. And, that a prudent budget process is in place that has been historically approved by resident voters of the Blind Brook community. Notwithstanding this, I believe there is always room for improvement and during the next year our staff will continue to work diligently to ensure that we are complying with all board policies as well as the legal requirements associated with school business office operations.

If you have any questions or suggestions that might help our business office function with greater operating efficiency please let me know.

Enclosure