
Certified Public Accountants

September 5, 2018

The Board of Education
Hornell City School District, New York

Dear Board Members:

In planning and performing our audit of the basic financial statements of the Hornell City School District (the "District") as of and for the year ended June 30, 2018, 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, we considered the District's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances 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 entity'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 material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, 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. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined below:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

In addition, during our audit we identified certain matters involving the internal control, other operational matters and new reporting requirements that are presented for your consideration. This letter does not affect our report dated September 5, 2018 on the financial statements of the District. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. Our comments are summarized in Exhibit I.

The purpose of this communication, which is an integral part of our audit, is to describe, for management and those charged with governance, the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

Drescher & Malechi LLP

September 5, 2018

Extraclassroom Programs

While reviewing cash receipts in the District's extraclassroom activities, we identified two transactions from a sample of twenty-five where it appears sales tax should have been charged, however no sales tax was charged. Further, per review of the extraclassroom general ledger, it appears there are dormant clubs that have not been closed out.

We recommend that the District ensure that sales tax is being collected on all items that meet the criteria, as outlined by the New York State Department of Education, for sales tax. Further, we recommend that all clubs be monitored closely and if a club is inactive for longer than one year, the clubs should be closed out and any remaining funds should be transferred to the general student organization.

Procurement, Suspension and Debarment

The federal programs of the District are governed by the Uniform Guidance. In accordance with the requirements set forth by 2 CFR sections 200.317 through 200.326 of the Uniform Guidance, the District must:

- Have written standards covering conflicts of interest with regards to the selection, award, and administration of contracts.
- Ensure that state or local geographical preferences in evaluation of bids do not apply to federally funded programs.
- Have a clause regarding micropurchases and simplified acquisition thresholds.
- Ensure procurements provide full and open competition.
- Have evidence that the contractor is not debarred, suspended.

Implementation of the procurement standards in 2 CFR sections 200.317 through 200.326 is required for the District's fiscal year beginning July 1, 2018.

We recommend that the District review the 2 CFR sections 200.317 through 200.326 of the Uniform Guidance and ensure the District's procurement policy is in compliance with all requirements.

Capital Asset Inventories

During the year ending June 30, 2018, the District had a valuation performed of its capital assets. As a result of this inventory, the District reported certain reclassifications to its capital asset categories.

We recommend that the District perform regular reviews of its capital asset inventory to ensure that the details and classifications of the assets are appropriate.

New Reporting Requirements

The Governmental Accounting Standards Board (“GASB”) has adopted several new pronouncements, which may have a future impact upon the District:

GASB Statement No. 83— The District is required to implement GASB Statement No. 83, *Certain Asset Retirement Obligations*, effective for the fiscal year ending June 30, 2019. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs).

GASB Statement No. 84—The District is required to implement GASB Statement No. 84, *Fiduciary Activities*, effective for the fiscal year ending June 30, 2020. This statement establishes criteria for identifying fiduciary activities of all state and local governments.

GASB Statement No. 87—The District is required to implement GASB Statement No. 87, *Leases*, effective for the fiscal year ending June 30, 2021. The objective of this Statement is to better meet the needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities.

GASB Statement No. 88—The District is required to implement GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, effective for the fiscal year ending June 30, 2019. The objective of this Statement is to improve the information that is disclosed in noted to government financial statements related to debt, including direct borrowings and direct placements. This Statement also clarifies which liabilities governments should include when disclosing information related to debt.

GASB Statement No. 89—The District is required to implement GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for the fiscal year ending June 30, 2021. The objectives of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for certain interest costs.

GASB Statement No. 90—The District is required to implement GASB Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*, effective for the fiscal year ending June 30, 2020. The objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.